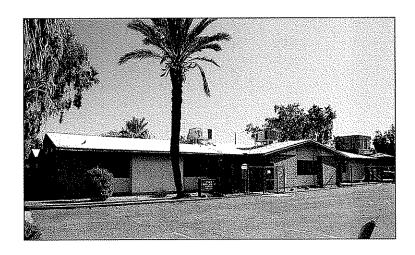
SUMMARY APPRAISAL REPORT



PROPERTY:

Former Day Care Facility

OWNER:

State of Arizona

ASSESSOR'S PARCEL NO.:

Part of 109-49-072

ADDRESS:

1937 West Jefferson Street, Phoenix, Arizona

TYPE:

Building with Office Conversion Potential

EFFECTIVE DATE OF

THE APPRAISAL:

August 25, 2009

CLIENT:

Mr. Ryan Maxwell

General Services Division

Arizona Department of Administration 100 North 15th Avenue, Suite 202

Phoenix, Arizona 85007

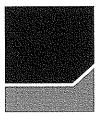
APPRAISER:

Dennis L. Lopez, MAI, SRA

Dennis L. Lopez & Associates, LLC

OUR FILE No.:

090560



DENNIS L. LOPEZ & ASSOCIATES, LLC

REAL ESTATE APPRAISERS AND CONSULTANTS

September 29, 2009

Mr. Ryan Maxwell Contract Administrator General Services Division Arizona Department of Administration 100 North 15th Avenue, Suite 202 Phoenix, Arizona 85007

RE:

Assignment:

Estimate Market Value of the Fee Simple Interest

Property:

Former Day Care Facility (Building with Office Conversion Potential)

Owner:

State of Arizona

APN:

Part of 109-49-072

Address:

1937 West Jefferson Street, Phoenix, Arizona

Our File No.:

090560

Dear Mr. Maxwell:

Pursuant to your request, I have inspected the above-referenced property for the purpose of estimating the market value of the fee simple interest as of the effective date of the appraisal (date of valuation), August 25, 2009.

The intended use of the appraisal will be for property management purposes. I expect that the intended user of the appraisal will be you, the client.

My opinion of market value assumed a cash transaction or one involving financing at market terms after a reasonable exposure period as of the effective date of the appraisal. The opinion expressed was subject to the underlying assumptions and limiting conditions, definitions and certification set forth in the body of the accompanying summary appraisal report. The appraisal and report were prepared in conformity with the appraisal guidelines of the Arizona Department of Administration and the Uniform Standards of Professional Appraisal Practice, 2008-2009 (USPAP).

Mr. Ryan Maxwell September 29, 2009 Page 2

During the course of the appraisal and analysis, I became thoroughly familiar with the subject property and its location. Documented market data from the applicable market segment to which the subject belongs were analyzed and I spoke with well-informed persons familiar with current real estate values, all for the purpose of estimating the market value of this property.

Based on the information found in my investigation and coupled with my professional and independent appraisal, my opinion of the market value of the fee interest in the subject property, "as is", as of the effective date of the appraisal (date of valuation), August 25, 2009, was:

SEVEN HUNDRED THIRTY-FIVE THOUSAND DOLLARS

(\$735,000 or \$81.20/s.f. of Gross Building Area)

My opinion of market value was subject to a special limiting condition stated on page 11 of the accompanying report.

The opportunity to assist you has been appreciated.

Respectfully submitted,

Dennis L. Lopez, MAI, SRA

Certified General Real Estate Appraiser - State of Arizona

Certificate No. 30189

DLL:dll

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<u>Appendix</u>

Qualifications of the Appraiser

UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS

- 1. This report is the confidential and private property of the client and the appraiser. Neither all nor any part of the contents of this report shall be conveyed to any person or entity, other than the appraiser's or firm's client, through advertising, solicitation materials, public relations, news, sales, or other media without the written consent and approval of the authors, particularly as to valuation conclusions, the identity of the appraiser or firm with which the appraiser is connected, or any reference to the Appraisal Institute or the MAI and SRA designations. Further, the appraiser or firm assumes no obligation, liability, or accountability to any third party. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.
- 2. Neither this report, nor any of its contents, may be used for the sale of shares or similar units of ownership in the nature of securities, without specific prior approval of the appraiser. No part of this appraisal may be reproduced in any promotional materials without the permission of the appraiser.
- 3. The information furnished by the property owner, agent, management or the client is assumed to be correct as received.
- 4. The appraiser is not responsible for the accuracy of the opinions furnished by others and contained in this report, nor is he responsible for the reliability of government data utilized in the report.
- 5. The title to the property is assumed to be marketable and free and clear of all liens.
- 6. The property is appraised as if owned in fee simple title without encumbrances, unless otherwise mentioned in this report.
- 7. The fee simple estate in the property contains the sum of all fractional interests which may exist.
- 8. The legal description obtained by the appraiser was assumed correct and descriptive of the subject property. No responsibility is assumed for the legal description provided or for matters including legal or title considerations. A survey and title report should be obtained to verify its accuracy.
- 9. No site survey was provided to the appraiser unless otherwise noted. It is assumed that the sources for dimensions and size relied upon are correct.

- 10. The utilization of the land by the improvements is assumed to be within the boundaries or property lines described and that no encroachments exist unless otherwise noted in the report.
- 11. No hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable were assumed to exist. No responsibility is assumed for such conditions or arranging engineering studies that may be required for their discovery.
- 12. Subsurface rights (mineral, oil, etc.) and their potential impact upon value were not considered in this appraisal, unless stated otherwise.
- 13. This appraisal assumes the subject property, as vacant or as improved, has no historical or archeological significance. The value estimate is predicated on the assumption that no such condition exists. Should the client have a concern over the subject's status, he or she is urged to retain the services of a qualified independent specialist to determine the extent of either significance, if any, and the cost to study the condition or the benefit or detriment such a condition brings to the property. The cost of inspection and study must be borne by the client or owner of the property. Should the development of the property be restricted or enhanced in any way, the appraiser reserves the right to modify the opinion of value indicated by the market.
- 14. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in the appraisal report.
- 15. This appraisal assumes the subject property complies with the requirements under the *ADA*, *Americans With Disabilities Act*. The appraisers are not qualified to detect each and every item of compliance or lack thereof. The value estimate is predicated on the assumption that there is no lack of compliance that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

Should the client have a concern over the subject's state of compliance, he or she is urged to retain the services of a qualified independent ADA specialist to determine the extent of compliance and the cost to bring the property into compliance if needed. The cost of inspection, study and compliance must be borne by the client or owner of the property. The cost could be deducted from the estimate of market value of the subject property if indicated by the market.

16. The subject property is assumed not to be in violation of any government regulations or laws pertaining to the environment.

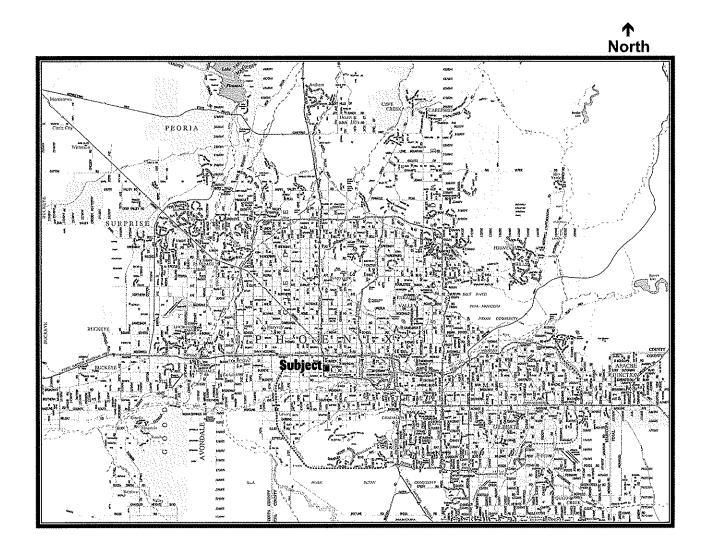
17. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances as asbestos, PCB transformers, urea-formaldehyde foam insulation, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (containing hazardous materials). Mold may be present in areas the appraiser cannot see. The value estimate is predicated on the assumption that there is no such material or growth on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

Should the client have a concern over the existence of such substances, he or she is urged to retain the services of a qualified independent environmental specialist to determine the extent of the contamination, if any, and the cost of treatment or removal. The cost of detection, treatment or removal and permanent storage must be borne by the client or owner of the property. This cost can be deducted from the estimate of market value of the subject property if requested by the client.

- 18. Responsible ownership and competent management is assumed to exist for the subject property.
- 19. The values assigned to the improvements shown in this report are in proportion to the contribution they make to the value of the property as a whole. The separate estimates of value for the land and building must not be used in conjunction with any other appraisal and are invalid if so used, or if used separately.
- 20. All furnishings and equipment (or other personal property), except those specifically indicated and/or typically considered as a part of real property (under common accepted definitions) have been disregarded in this valuation. Only the real estate, as permanently affixed to the subject site, has been valued herein.
- 21. This report is not considered a legal document and the appraiser assumes no responsibility for matters of a legal nature.
- 22. The appraiser is not required to testify regarding this report in deposition or in court unless arrangements were previously made.
- 23. The appraiser cannot predict or evaluate the possible effects of future wage or price control actions of the government upon rental income or financing of the subject property; hence, it is assumed that no controls will apply which would nullify contractual agreements, thereby changing property values.

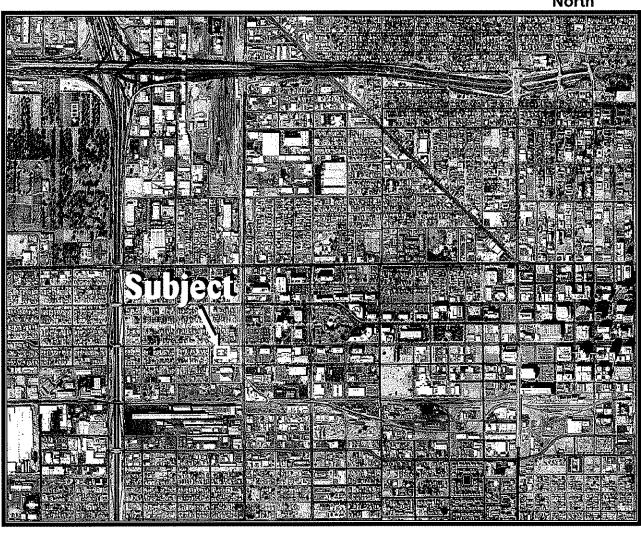
- 24. The appraiser did not base a conclusion or opinion of value on the following:
 - a. Racial, ethnic, or religious homogeneity of the inhabitants of an area or of a property
 - b. Racial, religious, and ethnic factors as predictors of value trends or price variance
 - c. Neighborhood trends analyzed upon stereotyped or biased presumptions relating to race, color, religion, sex, or national origin, or upon unsupported presumptions relating to the effective age or remaining life of the property being appraised or the life expectancy of the neighborhood in which it is located.

REGIONAL MAP



AERIAL PHOTOGRAPH (2009)





SUMMARY OF IMPORTANT FACTS AND OPINIONS

PROPERTY:

Former day care facility

OWNER:

State of Arizona

Assessor's Parcel No.:

Part of 109-49-072

ADDRESS:

1937 West Jefferson Street, Phoenix, Arizona

TYPF:

Potential office building conversion

OWNER CONTACT AND

PROPERTY INSPECTION:

The owner was the client. The property was inspected accompanied by Mr. Ryan Maxwell, General Services Division, Arizona Department of Administration, on

August 25, 2009.

PURPOSE AND INTENDED

USE AND USER:

The purpose of this appraisal was to estimate the market value of the fee simple interest in the subject property as of the effective date of the appraisal, August 25, 2009. The intended use of the appraisal will be for property management purposes. I expect that the intended user will be you, the client.

SITE AREA:

30,000 square feet or 0.689 net acre

The site area was defined on the description given by the client (Lots 5-10) but altered by the appraiser (deleting Lot 5) as not to encroach into the building

improvements on the parcel to the east.

IMPROVEMENTS:

9,052 square foot, 1-story building, built in 1968

ZONING:

R-3, Multiple-Family Residential

HIGHEST AND BEST USE:

As Vacant As Improved Speculative land investment

Existing use, but converted for office use

INDICATIONS OF VALUE:

Cost Approach

Sales Comparison Approach

Income Approach

Not applicable

\$735,000 or \$80.20 per square foot \$635,000 or \$70.15 per square foot

FINAL OPINION OF

MARKET VALUE:

\$735,000 or \$80.20 per square foot

My opinion of market value was subject to a special limiting condition stated on page 12 of the

accompanying report.

EXPOSURE PERIOD:

6 months

TYPE OF REPORT:

Summary

DATE OF INSPECTION:

August 25, 2009

EFFECTIVE DATE OF THE

APPRAISAL:

August 25, 2009 (date of valuation)

DATE OF THE REPORT:

August 25, 2009 (perspective of the appraisal)

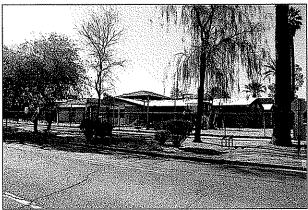
APPRAISER:

Dennis L. Lopez, MAI, SRA

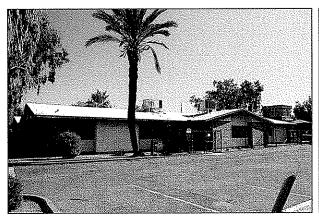
SUBJECT PROPERTY PHOTOGRAPHS

(August 25, 2009)



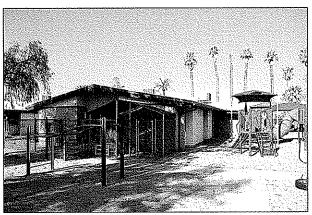


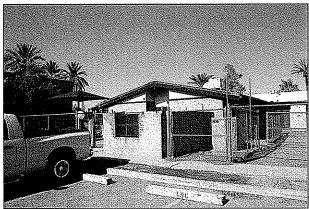
Subject Looking Southwest and Southeast from Jefferson Street



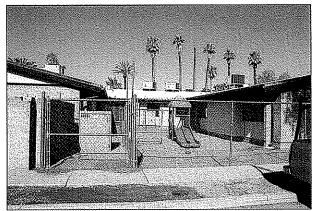


Subject Looking Northeast and Northwest from the Parking Lot



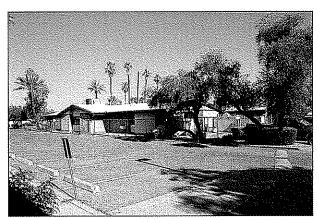


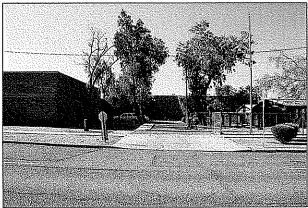
Building Views



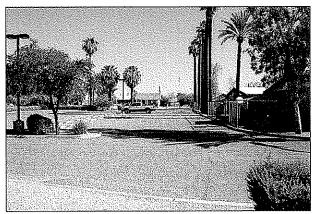


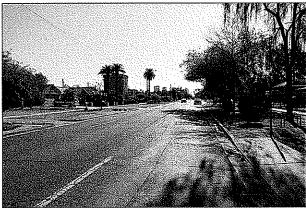
Building View and East Parking Lot





South Parking Lot and Jefferson Street Access and Driveway





West Access, Crossover Parking and Jefferson Street Looking East

INTRODUCTION

Scope of Work

Scope of work is defined by USPAP as follows:

The type and extent of research and analyses in an assignment.

This written summary report leads the reader through the appraisal of a parcel of real property in Phoenix, Arizona. I provided a summary appraisal report which provides all the introduction, description, data, analysis and conclusions that the reader requires to understand the opinion of market value. This appraisal report has an accompanying workfile. A workfile is defined by USPAP as:

Documentation necessary to support an appraiser's analyses, opinions and conclusions

Thus, where my description, data, analysis and conclusions are summarized in the report, my workfile contains supporting documentation.

The scope of work included an analysis of the physical and legal characteristics of the subject, the influences of the surrounding region and neighborhood on the property, and supply and demand in the subject's market segment which led to my opinion of highest and best use.

Once my opinion of highest and best use was established, I studied recent sales and current listings of comparable office properties in the subject's market segment and I spoke with knowledgeable market participants who are familiar with properties like the subject. How the market viewed the subject was critical to my supported opinion of market value and a reasonable exposure period. Their comments also helped provide further support for quantitative and qualitative sales adjustments.

The appraisal documented in this report supported a final opinion of value by the Sales Comparison Approach and Income Approach. Sufficient data were contained within this report for an adequate understanding of the data considered, as well as the methodology and reasoning utilized to reach my opinion of market value.

Assumptions and limiting conditions plus my certification set forth the boundaries in which my opinion of market value was contained.

Special Limiting Conditions

Extraordinary Assumptions

According to USPAP 2008-2009, an extraordinary assumption is defined as follows:

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. My opinion of market value was subject to the following extraordinary assumption:

<u>Crossover and Parking Rights</u> – The client has requested that it is assumed that the subject has permanent crossover and limited parking rights over the land to the east, south and west. As such, the subject has access to a two driveways that leads to public right-of-way and the building has a typical parking ratio.

Hypothetical Conditions

According to USPAP 2008-2009, a hypothetical condition is defined as follows:

That which is contrary to what exists but is supposed for the purpose of analysis.

Hypothetical conditions assume conditions *contrary to known facts* about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. My opinion of market value was not subject to any hypothetical assumptions.

Property Identification

The subject was defined to be a 30,000 square foot or 0.689-acre parcel of land located at 1937 West Jefferson Street, Phoenix, Arizona. The site was improved with a 9,052 square foot one-story single-tenanted building, formerly used for day care, and built in 1968. The property shares a driveways and parking with adjoining state-owned land. The site area was defined on the description given by the client (Lots 5-10) but altered by the appraiser (deleting Lot 5) as not to encroach into the building improvements on the parcel to the east. The property was referred to as the "subject" in the body of the report.

Given the infeasibility of operating a day care business on the property, the building is best suited for an alternative use with more market acceptance—office use. Thus, this appraisal estimates market value of the property assuming it to be a functional office building but then deducting the cost necessary for conversion.

Legal Description

The client provided the following legal description;

Lots 5, 6, 7, 8, 9 and 10, Block 37, CAPITOL ADDITION

However, the legal description was altered to eliminate Lot 5 as it includes part of the land and building to the east. Instead, the subject's legal description is:

Lots 6, 7, 8, 9 and 10, Block 37, CAPITOL ADDITION

Ostensible Owner

According to the information provided by the client and Assessor's records, the subject property was owned by State of Arizona.

Ownership and Marketing History

According to public records, the subject property has been owned by State of Arizona since 1979. It has not been offered for sale to the open market since its purchase. However, it has been leased to day care operators over the years. No lease or income information was provided for my review. The property was last operated as a day care facility in April, 2009.

Owner Contact and Property Inspection

The owner was the client. The property was inspected accompanied by Mr. Ryan Maxwell, General Services Division, Arizona Department of Administration, on August 25, 2009.

Leasehold Interest

As requested by the client, only the undivided fee simple interest was appraised.

Purpose of the Appraisal

The purpose of this appraisal was to estimate the market value of the fee simple interest in the subject property as of the effective date of the appraisal.

Intended Use and User of the Appraisal

The written report is the vehicle which transmits the data and reasoning to the reader in support of my opinion of market value. The intended use of the appraisal will be for property management purposes. I expect that the intended user will be you, the client.

Definitions

Market Value

"Market Value" means the most probable price estimated in terms of cash in United States dollars or comparable market financial arrangements which the property would bring if exposed for sale in the open market, with reasonable time allowed in which to find a purchaser, buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable.¹

Fee Simple Interest

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.²

Exposure Period

The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. ³

Date of Inspection

August 25, 2009

Effective Date of the Appraisal

August 25, 2009 (date of valuation)

Date of the Report

August 25, 2009 (perspective of the appraisal)

Arizona Revised Statutes 12-1122

Appraisal Institute, <u>The Dictionary of Real Estate Appraisal</u>, Fourth Edition, (Chicago, Illinois: Appraisal Institute, 2002), page 113.

Uniform Standards of Appraisal Practice 2008-2009, Appraisal Standards Board, Statement on Appraisal Standards No. 6 (SMT-6)

REGIONAL ANALYSIS

As real estate is fixed in location, it is important to analyze the external forces which affect its value. This section introduces the four interrelated forces that have both a direct and indirect effect upon the marketability of real estate in metropolitan Phoenix:

- Environmental Forces: This category of market forces includes an analysis of topography, climate, land-use patterns, water availability, transportation and street patterns as well as constraints on future growth and development potential.
- <u>Economic Forces</u>: This category includes an analysis of population and employment trends, wage levels, local market trends (including supply/demand characteristics of major market segments), availability of financing, and the availability of goods and services.
- <u>Governmental Forces</u>: This category includes an analysis of local/regional governmental attitudes and policies regarding growth, development, provision of services, taxation, city planning and incentives to commerce, industry and real estate development.
- Social Forces: This category includes an analysis and discussion of the demographic composition of the population and its demand for real estate. Consideration is also given to attitudes of the population regarding education, growth, development and lifestyle options.

Environmental Forces

Physical factors including land area, topography, climate, availability of water, surrounding land uses have a direct impact the general desirability of a city or town.

The subject is located in Phoenix, Arizona, one of 23 incorporated cities in the Phoenix metropolitan area. Phoenix is located in a river valley within the desert that covers the southwest portion of the state. The metropolitan area covers an area of approximately 2,500 square miles. The incorporated area of Phoenix covers about 517 square miles. Maricopa County is 9,222 square miles in size with 29% privately-held.

Topography

The metropolitan area is located in a river valley and on highlands within the desert that covers the southwest portion of the state. Development comes easily to Phoenix and other cities in the area as the mostly-level topography allows for construction without costly site preparation. With the relatively unobstructed terrain, street patterns have taken on a north/south, east/west grid orientation. Along nearly every section line is a major arterial criss-crossing the valley. These major arterials carry the bulk of everyday traffic.

Climate

Climate alone attracts thousands of people to the state annually as residents or as visitors. This in turn creates great increases in demand for goods, services and housing, thereby bolstering the local economy and contributing to the growth cycle. Located at an elevation of 1,117 feet, Phoenix enjoys a dry subtropical climate with an average yearly precipitation of 6.74 inches, an average maximum temperature of 84.9 degrees and an average minimum temperature of 55.3 degrees. The sun shines on approximately 86 percent of the days of the year.

Land Use

Phoenix and its incorporated satellite cities were once separated by open land, however explosive growth over the past 70 years has caused their borders to become blurred. Although largely surrounded, Phoenix itself has sufficient room to grow, especially to the north with additional incorporation. Incorporated portions of the region are estimated to be only 70 percent developed. Given the large supply of undeveloped infill and outlying land, Phoenix does not appear overly restricted in terms of increasing its tax base and funding existing and new growth.

Water Availability

As metropolitan Phoenix is within the Sonoran desert, water and its continued availability are a concern to the continued growth of the area and quality of the life. The sources of the area's water supply are estimated to be groundwater (50%) and surface water (50%).

Groundwater is pumped from basins located beneath the surface of Maricopa County. The metropolitan area had been consuming nearly 500,000 acre-feet more than is replenished. In response to this overdraft, the Arizona State Legislature enacted the 1980 Groundwater Management Code to safeguard groundwater supplies. According to the code, the goal is to reach "safe yield" by the year 2025, which assumes that there will be no more groundwater withdrawn than is recharged. State and local municipal governments coordinate efforts to ensure an adequate water supply will meet forecasted demand/growth in this century.

Local surface water supplies come from reservoirs located on the Salt, Verde, and Agua Fria Rivers and delivered by canal. The area also receives allocations of Colorado River water through the Central Arizona Project (CAP).

Although the present water supply appears adequate for the needs of the region, the rapid population growth and increased development of golf courses and the use of decorative water features has raised concern among planners as to the future capacity of the area to absorb population. For this reason, water conservation and apportionment of water rights have become two major issues facing residents of the region and impacting the potential for growth.

Transportation

Highways and Freeways - The metropolitan area is served by Interstates-10 and -17, U.S. Highways 60 and 93, together with State Routes 51, 74, 85, 87, 101, 202, and 303, the last three of which are fully or partially-completed urban freeways. Personal vehicles and trucks have been, and will continue to be the primary means of transportation in the metropolitan area.

An expanded freeway system of over 230 miles was approved in 1985 (see Metropolitan Area map at the beginning of this report). It was intended to have been built by 2010 with a special one-half cent sales tax approved by Maricopa County voters. However, with rising right-of-way acquisition and construction costs, and opposition to portions of the plan, a few miles of the planned system were discarded. The deletion of the Paradise and Grand Avenue Freeway plans coupled with the infusion of federal tax dollars, ADOT finished the modified freeway plan in 2008. But new funding for new routes and improvements has been guaranteed with a new 20-year half-cent sales tax that began in 2005.

Major Streets - Major section-line arterials still carry the bulk of everyday traffic given the development sprawl. Most are improved with four or six lanes and carry traffic at speeds of 35 to 45 m.p.h.

Airports - The largest airport in the Phoenix metropolitan area is Sky Harbor International Airport. It accommodates all sizes of private and commercial aircraft. As of December, 2008, it was one of the ten busiest in the country for passenger traffic and one of the twenty busiest in the world for passenger traffic. Each day, there are approximately 1,500 take-offs and landings at Sky Harbor, including commercial, general aviation, military and cargo flights. In 2008, 39.9 million passengers passed through Sky Harbor. There are 20 domestic and international airlines operating at the airport serving 100 cities in the U.S. and 16 international cities. In addition to Sky Harbor, there are eight smaller satellite airports in the metropolitan area.

<u>Railroads</u> - The area is served by two railroads - the *Union Pacific Railroad* and the BNSF Railway. Commerce and industry depends little on rail transportation although large areas of industrial development are rail served. None of the rail lines are used for mass transit.

Mass Transit - The Phoenix metropolitan area lacks a mass transit system serving all of the metropolitan area. But the *Valley Metro* bus lines serve a large portion of the metropolitan area. The cities of Phoenix, Tempe and Mesa have built *Metro*, a 20-mile mass transit light rail line serving central Phoenix and linking the downtown areas of Phoenix and Tempe and ending at a point about two miles west of downtown Mesa. It became operational in late 2008 and has met with good acceptance by the public.

Economic Forces

Population and Growth Statistics

Strong gains in population are due to an upturn in net in-migration. Net in-migration currently accounts for two thirds of the change in the population. Strong net in-migration is expected to continue as Arizona is an attractive destination due to climate, lifestyle and job availability.

The 2000 resident population in Arizona was 5,130,632 which indicated a 40% gain over the number in 1990. By July 1, 2008, the number was estimated to be 6,629,455. Maricopa County is among the top metropolitan growth markets in the United Sates. In 1970, metro Phoenix was ranked the 33rd largest metro area in the United States. By 1988, however, it had climbed to 20th, and by 2000, Phoenix was the 13th largest metropolitan area in the country.

By July 1, 2008, Maricopa County was estimated to have a population of 3,987,942 or 60.2% of Arizona's total. Phoenix alone had a population of 1,512,986 or 40% of the county total. The following tables summarize actual and estimated population growth and growth rates of the county and the cities and incorporated areas within:

MARICOPA COUNTY	3,987,942
Apache Junction	276
Avondale	76,648
Buckeye	50,143
Carefree	3,948
Cave Creek	5,132
Chandler	244,376
El Mirage	33,647
Fountain Hills	25,995
Gila Bend	1,899
Gilbert	214,820
Glendale	248,435
Goodyear	59,436
Guadalupe	5,990
Litchfield Park	5,093
Mesa	459,682
Paradise Valley	14,444
Peoria	155,557
Phoenix	1,561,485
Queen Creek	23,329
Scottsdale	242,337
Surprise	108,761
Tempe	172,641
Tolleson	6,833
Wickenburg	6,442
Youngtown	6,522
Unincorporated	254,069

Maricopa	Co. Popula	ation Estimates
	July 1, 20	800

	July 1, 2000	***************************************
Population	Average Annual Population Increase	Increase/Yr. (% Change)
663,510		445 Me 400 M
969,425	30,592	3.86%
1,218,000	49,715	4.67%
1,509,260	58,252	4.38%
1,837,956	65,739	4.02%
2,136,000	50,250	3.05%
2,551,765	68,000	2.60%
3,097,000	67,400	2.63%
3,475,500	75,700	2.33%
3,648,545	173,045	4.98%
3,792,675	144,130	3.80%
3,907,492	114,817	3.02%
3,987,942	80,450	0.98%

Arizona Department of Commerce

Arizona Department of Economic Security

Employment

Arizona, as well as the Phoenix metropolitan area, has enjoyed strong economic job growth and job gains in the long term. The metropolitan area possesses a diversified economic base. Due to its geographic location, junction of two Interstate Highways and its international airport, metropolitan Phoenix has developed into a regional distribution center for the southwest.

The following table illustrates the composition of the county's employment structure:

PHOENIX-MESA-SCOTTSDALE METROPOLITAN AREA LABOR FORCE AND NONFARM EMPLOYMENT

Prepared in Cooperation with the U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics
Arizona Department of Consmerce, Research Administration

					2008								
	JAN	FEB	MAR	APR	MAY	JUN	JUL.	AUG	SEP	OCT	NOV	DEC	AVERAGE
Total Civilian Labor Force	2,086.8	2,078.8	2,080.8	2,070.4	2,068.7	2.085.2	2,094.9	2,098.8	2,124.9	2,139.9	2,134.7	2,143.7	2,100.6
Total Unemployment	84.3	73.8	73.3	66.7	72.4	90.7	98.4	105.9	114.6	117.2	118.4	131.1	95.6
Rate	4.0%	3.5%	3.5%	3.2%	3.5%	4.3%	4.7%	5.0%	5.4%	5.5%	5.5%	6.1%	4,5%
Rate (Sea. Adj.)	3.6%	3.5%	3.5%	3.4%	3.8%	4.3%	4.6%	5.1%	5.3%	5.5%	5.7%	6.3%	4.5%
Total Employment	2,002.5	2,005.0	2,007.5	2,003.7	1,996.3	1,994.5	1,996.5	1,993.0	2,010.3	2,022.8	2,016.3	2,012.5	2,005.1
Total Nonfarm	1,896.0	1,909.3	1,914.3	1,911.6	1,906.9	1,865.2	1,839.5	1,862.9	1,867.8	1,866.1	1,850.5	1,841.2	
Total Private	1,646.0	1,655.5	1,660.7	1,658.1	1,655.4	1,645.5	1,627.8	1,622.6	1,616.7	1,612.5	1,596.4	1,588.7	1,632.2
Goods Producing	291.6	290.8	290.1	287.8	285.3	282.9	281.0	278.7	276.0	273.5	265.1	260.1	280.2
Service-Providing	1,604.4	1,618.5	1,624.2	1,623.8	1,621.6	1,582.3	1,558.5	1,584.2	1,591.8	1,592.6	1,585.4	1,581.1	1,597.4
Private Service-Providing	1,354.4	1,364.7	1,370.6	1,370.3	1,370.1	1,362.6	1,346.8	1,343.9	1,340.7	1,339.0	1,331.3	1,328.6	
Natural Resources and Mining	3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.2	3.3	3.3	3.2	3.0	
Construction	153.4	152.3	151.6	149.2	147.0	144.6	142.2	140,4	137.9	135.3	127.5	123.0	
Construction of Buildings	26.2	25.8	25.8	24.9	24.4	23.5	23.1	23.1	22,4	22.1	20.8	20.0	
Heavy and Civil Engineering	22.1	21.9	21.6	21.5	21.7	21.8	21.6	21.3	21.4	21.2	20.4	20.1	21.4
Specialty Trade Contractors	105.1	104.6	104.2	102.8	100.9	99.3	97.5	96.0	94.1	92.0	86.3	82.9	
Manufacturing	135.0	135.3	135.1	135.2	134.9	134,9	135.4	135.1	134.8	134.9	134.4	134.1	134.9
Durable Goods	108.3	108.5	108.3	108.3	108.3	108.3	108.5	108.4	108.1	108.0	107.8	107.6	
Computer and Electronic Prod.	38.2	38.1	38.1	38.1	38.1	38.2	38.3	38.1	38.0	38.0	37.9	37.9	
Aerospace Products and Parts	15.3	15.3	15.3	15.2	15.3	15.3	15.3	15.3	15.3	15.3	15,3	15.3	
Non-Durable Goods	26.7	26.8	26.8	26.9	26.6	26.6	26.9	26.7	26.7	26.9	26.6	26.5	26.7

All Numbers in Thousands

Over the past eight years, the unemployment rate in Maricopa and Pinal Counties has generally been less than the overall unemployment rate in the United States. As of the December, 2008, the unemployment rate was estimated to be 7.2% in the US and 6.9% in Arizona and 6.3% in the Phoenix-Mesa-Scottsdale MSA.

PHOENIX-MESA-SCOTTSDALE MSA* UNEMPLOYMENT RATE (Seasonally Adjusted)

						2000 - 2	008						
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	AVG.
2000	3.4%	3.4%	3.4%	3.1%	3.4%	3.4%	3.4%	3.7%	3.4%	3.3%	3.2%	3.1%	3.3%
2001	3.4%	3.4%	3.7%	3.6%	3.7%	3.9%	3.9%	4.4%	4.6%	5.0%	5.3%	5.5%	4.2%
2002	5.6%	5.6%	5.7%	5.8%	5.7%	5.7%	5.7%	5.6%	5.5%	5.5%	5.7%	5.6%	5.6%
2003	5.3%	5.4%	5.3%	5.4%	5.4%	5.4%	5.4%	5.3%	5.2%	4.9%	4.9%	4.9%	5.2%
2004	4.8%	4.7%	4.7%	4.6%	4.5%	4.5%	4.3%	4.3%	4.3%	4.2%	4.1%	4.0%	4.4%
2005	3.9%	4.1%	4.2%	4.1%	4.2%	4.0%	4.1%	4.1%	4.3%	4.1%	4.0%	3.8%	4.1%
2006	3.7%	3.7%	3.5%	3.6%	3.5%	3.7%	3.7%	3.4%	3.5%	3.4%	3.3%	3.3%	3.5%
2007	3.3%	3.2%	3.1%	3.1%	3.0%	3.1%	3.3%	3.2%	3.3%	3.4%	3.6%	4.0%	3.3%
2008	3.6%	3.5%	3.5%	3.4%	3.8%	4.3%	4.6%	5.1%	5.3%	5.5%	5.7%	6.3%	4.6%

* Phoenix-Mesa Metropolitan Statistical Area includes all of Maricopa and Pinal counties.

Arizona Dept. of Commerce, Research Administration, in cooperation with the U.S. Department of Labor

Economy

Arizona has ranked among the leading states in three important economic indices of growth for more than a decade--growth in personal income; growth in population; and growth in non-farm wage and salary employment. Among all Arizona counties, Maricopa County has the largest and most diverse economic base. Construction, manufacturing, service and trade, government, and agriculture are all important factors contributing to a relatively sound economy.

Maricopa Community Colleges Center for Workforce Development published an article entitled <u>Maricopa County Economic and Workforce Overview January, 2009</u>. Some of the following information and opinions were selected from it:

But Arizona and the U.S. are in recession according to the National Bureau of Economic Research and have been since December, 2007, which already makes it one of the longest recessions of the post-war period. The recession has spread world-wide.

The first seven years of this decade can be described as a period of "easy money". Financial innovation in the form of sub-prime mortgages and securitization allowed credit to expand seemingly without limits, or regulation. The credit expansion allowed asset bubbles to develop in real estate and commodities. Credit is now contracting, and overextended financial institutions are being forced to deleverage. This process has sent asset prices tumbling. The stock market has lost over 40% of its value, home prices are down 9% nationwide, and oil prices have fallen from over \$140 per barrel to below \$50. The U.S. economy floats on a sea of credit, and it is now in freefall. Projections are for a severe downturn lasting into the second half of 2009 comparable in severity to the mid-1970s and early 1980s recessions.

The U.S. lost 524,000 jobs in December, 2008, making 2008's collapse in employment the worst since the end of World War II. Nationwide, employment declined in every month of 2008. Currently, the U.S. unemployment rate stands at 7.2% in December, up from 6.7% in November. It may top 8% in 2009. Unemployment is a lagging indicator, and will remain high even after the recovery begins. Nationwide, new claims for unemployment benefits reached their highest level in 26 years during the week ending December 20, 2008, to a four-week average of 589,000. Arizona has been hard hit. The recession in Arizona began earlier and will last longer than the national recession. Credit conditions must first improve and then the large inventory of houses must be absorbed. Since homebuilding is so important to the local economy, the economy cannot be revived until homebuilding commences.

Exports are one of the few bright spots in the Arizona economy. Thanks to the weakened dollar, Arizona's exports to the world were up 4.9% in 2007 and were up 3.8% in the first three quarters of 2008 compared to 2007. But the boost in exports has not translated into more manufacturing jobs in the state. Arizona manufacturing employment was down 2.4% from December to December, although this rate of job loss is less than for the state overall which was down 4.3% over the same period..

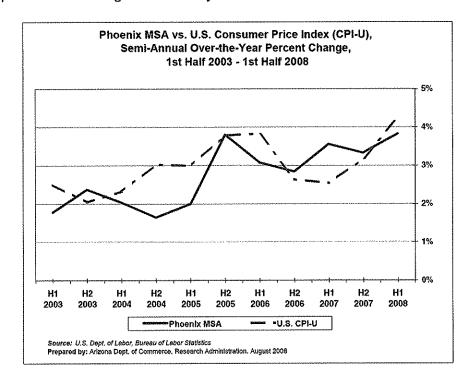
Sectors with negative employment growth statewide included real estate (-5.5%), information (-7.9%), air transportation (-8.1%), department stores (-11.9%), employment services (-17.1%), and construction (-20.7%).

Inflation worries are a thing of the past, but for the wrong reason--recession. The Consumer Price Index was down 0.7% in December, 2008, following two consecutive record decreases in the index since publication began in 1947 (-1.7% in November, and -1.0% in October). Falling energy prices, particularly gasoline, drove the decline in the overall index. Excluding energy, the index was virtually unchanged. The contracting economy should continue this trend. Deflation might be the worry now, as consumers stop buying in the face of declining prices. The Consumer Confidence Index declined to 37.7 in January, 2009. The month's reading represents an all-time low going back to the

index's inception in 1967. Nationwide, retail sales were down 9.8% between December 2007 and December 2008. Retail sales are down in Arizona due to employment declines, falling wealth from lower home and stock, and tighter credit. Sales are down over 10% in inflation adjusted terms. Auto sales are down nearly 25%. Sales tax collections statewide are down 13.4 % from November to November.

Aggregate retail sales in the Phoenix-Mesa-Scottsdale MSA declined 2.9% from 2007 to 2008. Retail sales were down 7.8%. Food increased by 6.1%. Restaurants and bars were down 2.8%. Contracting was down 16.6%. Lodging was down 1.6%.

Consumer price index changes over five years were shown was follows:



Construction

The construction industry is one of the primary strengths of the Phoenix economy. Construction activity in the single-family market segment has been very strong for the last thirteen years. During 2007 there were 36,045 residential permits with a dollar value of. There were 6,968 permits for commercial properties and industrial construction had 224 permits. But with a severe decline in demand for new homes, single-family residential construction activity has come to a near standstill in all sectors.

Manufacturing

Manufacturing in Arizona is represented by the categories of electronics, transportation equipment, industrial machinery, scientific instruments, fabricated metals, rubber and plastics, primary metals, chemicals, paper food, and miscellaneous.

Education and Tourism

The retail trade, service sector and housing markets are greatly impacted by college students, tourists and winter visitors. Approximately 66,000 college students attend Arizona State University on three campuses, and 250,000 students attend Maricopa County Community Colleges in credit courses. A significant number of these students are from outside the Phoenix metropolitan area. During their stay in the metropolitan area, they inject millions of dollars into the local economy.

Tourism is one of the leading industries in the metropolitan area. The most noted Arizona tourists are winter visitors generally over the age of 55. They arrive in the metropolitan area during October and leave during April or May. Generally, Arizona attracts more winter visitors than any other state, except Florida. According to the latest (2001) research by the W.P. Carey School of Business, 155,000 winter visitors were living in the numerous mobile home and RV parks and another 145,000 living in other forms of housing in Arizona in the 2000-2001 season. By 2002, the winter visitors in RV/travel trailer/mobile home households were contributing about \$1 billion to the state economy. The Phoenix metropolitan area attracted about 45 percent of the visitors indicating that they spent \$450 million in the area.

Government

Government agencies fulfill an enormous economic role in the Phoenix metropolitan economy as governmental agencies employ nearly 102,200 people in the area as of October, 2007 (most recent statistics). The State of Arizona is the largest employer in the metropolitan area. The county and all of the 23 incorporated cities employ many more. Governments not only employ thousands of people, but they are also users of many professional services.

Agriculture

Maricopa County is the largest agricultural county in the State of Arizona. Of all the crop acres in Arizona, less than 30 percent is in Maricopa County and the supply is shrinking given the unprecedented growth. Over the last nine years, the number of crop acres in the county has fallen from 356,600 to less than $288,400 \pm$ acres. The industry employs about 23,600 people in the county. Major commodities produced in Maricopa County include hay, cotton, grains, vegetables and fruits.

Real Estate Development and Growth

Residential uses still appear in subdivisions, generally created 10 acres in size or larger at a time. More developers prefer to be within masterplanned communities which include a variety of land uses and common amenities and are overseen by the residents and a community association.

Multi-family residential uses generally follows new single-family residential, commercial and employment development and the extension of freeways.

In the older areas of the region commercial and retail development lines major section line arterials. However, to control development and to enhance the appearance of the city, most commercial development is now found primarily at the intersection of major arterials in a shopping center or business park setting. Development of this sort controls density, layout, appearance, design and use.

Office development is generally found in close association with commercial and retail development in the metropolitan area. In some cases, planned parks cater only to office uses. But office development is still found regularly on singular parcels along the frontage of busy arterials, where zoning allows.

Today, most new industrial development is related to the electronics industry, distribution, light manufacturing and assembly, service, warehousing and back office. Today, the incorporated cities of Maricopa County relegate most industrial development to planned parks. Heavy industry, with visual, noise or odor pollution is generally located in older neighborhoods away from residential areas.

Real Estate Value Trends

Single-family Residential Detached Housing – From 2001 to the end of 2005, homebuilders experienced tremendous demand from buyers and land in many locations became scarce. Raw land prices escalated tremendously. But with a significant downturn in demand for new homes at the end of 2005, tract home development has virtually ceased. As such, land is no longer in demand and land prices are declining county-wide. Fulton Homes, Brown Family Communities, Engle Homes and Trend Homes (among others) have filed for bankruptcy. Others are merging to survive. Some of the following information and opinions were selected from Maricopa County Economic and Workforce Overview January, 2009 introduced previously:

According to the National Association of Realtors (NAR), the median price of an existing single-family home in the Greater Phoenix Metro area was down 27.6% between 3rd Quarter 2007 and 3rd Quarter 2008, a decrease from \$255,500 to \$185,100. This put the metropolitan area 8th nationwide during this period behind the cities of Riverside, California (-39.4%), Sacramento (-36.8%), San Diego (-36.0%), Los Angeles (-35.1%), Ft. Myers, Florida (-31.0%), Las Vegas, Nevada (-28.4%), and Orange County, California (-27.6%). Greater Phoenix led the nation's 20 largest metropolitan areas in home price declines between November, 2007, and November, 2008, according to the S&P/Case-Shiller Home Price index, down 32.9%. The index as a whole fell a record 18.2% over the 12 months ending November 30, 2008. From its peak in mid-2006, the index has plunged 25.1%.

About 40% of all present home sales in Greater Phoenix are repossessions or foreclosures. Historically this figure has been about 3%. Over the last year, roughly half of all homes sold in the region were sold at a loss. Just over 40% of homes have negative equity (value less than debt). There were only 251 housing starts in Greater Phoenix in November, 2008. Home sales and residential construction are now showing signs of stabilization. Residential building permits are down about 75% from their October, 2005, peak, which is on par with declines experienced during the mid-1970s and early 1980s. In 2009 permits might be off as much as 85%.

Conservatively, it is estimated that there is a surplus of 40,000 to 50,000 housing units in Greater Phoenix above normal demographic demand. Factoring in lower population growth projections and new housing stock coming on line, it will take several years for the market to eliminate this excess supply. Forecasters are predicting that by mid-2009 the housing market is expected to bottom out, credit will expand, and consumer demand will increase. However, the housing market may not return to its normal, pre-bubble levels until 2012. On the plus side, housing affordability in the region is on the rise, and is the highest among western states.

According to MeyersGroup-Hanley Wood in their New Home Executive Summary, 4th Quarter 2008, 13,722 new homes were sold in 2008, representing a 45 percent decrease over the number in 2007. The region had 795 detached projects actively selling at the end of 4th Quarter 2008, as compared to 872 a year earlier.

In the resale home market, the median home price decreased from \$260,600 in 2006 to \$257,000 a 1.4% decrease. For the year, the new homes median price decreased from \$306,355 in to \$283,365 a 7.5% decrease. But with the downturn, the median home price in the county has fallen to \$160,000 as of October, 2008. Once the price falls below \$150,000, then all appreciation of the period from 2006-2006 will be gone.

Low mortgage interest rates and easy terms were very important in sustaining the past boom market. Given the record-low level of interest rates and the large supply of lenders, especially in the sub-prime sector, acquisition, construction and permanent loan financing was plentiful and inexpensive. But with a severe crisis in the lending and mortgage markets, financing can no longer be obtained as cheaply and easily as it once was. As such, the slowdown in homebuilding is amplified.

Multi-family Residential - Class A and B apartment development flourished in urban high-profile infill locations or in the popular suburban locations in the metropolitan Phoenix area from 1994 until 2001. Apartment development is typically moderate-density on parcels of land ranging from 9 to 20 acres in size. New projects typically contain between 150 and 400 units with densities of 17 to 23 units per gross acre. However, new trends of development include small high-density "for sale" projects in condominium regimes in the urban areas of Phoenix, Scottsdale and Tempe.

The following list indicates the number of apartment units built from 1986 until the end of 2008 in projects with 100 units or more:

Apartment Units Built 100+

Year	Units	Year	Units	Year	Units
1986	20,773	1994	2,728	2002	6,179
1987	9,752	1995	6,841	2003	4,691
1988	5,417	1996	9,104	2004	5,223
1989	2,226	1997	5,115	2005	5,098
1990	1,686	1998	8,647	2006	4,534
1991	200	1999	9,372	2007	4,226
1992	878	2000	8,330	2008	6,423
1993	1,532	2001	7,887	2009	600 NO NO

Source: Real Data, Inc.

As of 4th Quarter 2008, there were 8,260 units planned and 6,302 under construction. The vacancy rate in apartment projects with 100 or more units was 12.53% up from 10.18% year-end 2007 and 7.78% in year-end 2006. The metropolitan area ended 2008 with negative absorption of 747 units. Unfurnished rents at the end of the year were \$785 per unit or \$0.94 per square foot or down from \$802 per unit or \$0.96 per square foot at year-end 2007. By the end of 2008, apartment units were selling for an average of \$84,252 per unit or \$105.55 per square foot compared to the end of 1007 when the average price was \$91,310 per unit or \$109.74 per square foot.

Retail - The strength of the retail market has been sparked by continued strong population gains in the region. New construction is evident in new growth locations and seen in all categories of commercial/retail development but especially in the categories of power center (big box) development and grocery-anchored neighborhood centers. The following statistics are from the Phoenix Metro Commercial Reports - Retail, 4th Quarter, 2004, published by Arizona Real Estate Center in association with Price Waterhouse Coopers, LLP. The report is no longer published but the history is important.

					GREATER P	HOENIX REAL F	STATE M 1986-2004	ARKET RETA	L ACTIVITY					
		Regional	***************************************		Power			Neighborhood			Strip		Total	Total
	Num.	Inventory	Occup.	Num.	Inventory	Occup.	Num	Inventory	Occup,	Num	Inventory	Occup.	Inventory	Occup.
	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	S.F.	S.F.		S.F.	S,F.		S.F.	S.F.		S.F.	S.F.	S.F.	S.F.
1986	15	10,766,469	10.401.898	71	9,105,535	8,593,195	228	20,556,068	18,731,791	160	6,613,513	4,585,312	47,041,585	42,312,196
1987	15	11,089,907	10,763,801	77	10,612,158	9,495,820	256	22,865,458	20,141,843	185	7,184,501	5,774,112	51,752,024	46,175,576
1988	15	10,876,255	10,247,109	84	11,654,660	10,040,417	276	24,368,419	21,566,538	224	9,013,555	6,931,453		48,785,517
1989	16	11,140,806	10,061,436	90	12,731,056	10,973,416	286	25,944,296	22,566,897	230	9,256,484	6,786,131	59,072,642	50,387,880
1990	17	12,701,407	10,950,701	101	14,464,211	12,553,890	295	26,935,363	23,252,603	234	9,711,042	6,997,283	63,812,023	53,754,477
1991	17	13,262,193	11,555,863	112	15,352,062	13,565,903	301	27,801,851	23,823,899	234	10,120,702	7,027,694		55,073,359
1992	17	13,140,476	11,397,166	119	15,974,429	14,433,268	313	28,606,737	24,622,567	234	10,045,825	7,510,944		57,963,945
1993	17	14,365,481	12,501,593	108	16,956,762	15,444,294	313	28,753,514	25,116,010	233	10,203,883	7,878,985	70,279,640	60,940,882
1994	16	14,273,193	12,520,514	116	20,233,158	18,249,289	318	29,190,139	26,163,262	231	10,411,673	8,626,495		65,559,560
1995	16	14.140,473	12,528,763	121	21,457,473	19,907,741	325	29,745,473	27,089,054	229	10,343,698	8,734,562		68,260,120
1996	16	14,098,349	12,216,801	125	23,284,284	21,762,847	348	31,728,484	28,902,976	229	10,363,646	9,071,345		71,953,969
1997	17	15,323,114	13,424,310	129	24,109,869	22,480,413	363	33,136,706	29,965,743	231	10,541,854	9,380,243		75,250,709
1998	17	15,758,114	13,368,395	130	24,222,869	22,593,240	378	34,119,532	31,411,959	232	10,568,854	9,374,036		76,747,630
1999	16	15,208,114	12,728,784	138	26,378,413	24,147,036	395	35,170,969	32,380,490	238	10,833,947	9,563,956	87,591,443	78,820,266
2000	13	13,272,016	12,299,175	141	27,153,988	25, 191, 316	413	36,255,761	33,171,883	239	10,556,947	9,553,259		80,215,633
2001	14	14,572,016	12,967,783	156	30,206,994	27,552,291	422	36,908,606	33,319,810	245	11 192 972	10,078,132		83,918,016
2002	14	14,572,016	13,352,746	162	31,385,955	28,240,903	436	37,820,948	33,341,609	247	11,283,787	10,161,379		85,096,637
2003	14	14,572,016	13,538,446	174	33,620,102	29,838,661	452	39,401,174	34,817,178	248	11,393,758	10,246,112		88,439,397
2004	14	14,874,041	14,015,966	184	36,809,951	32,710,403	461	40,517,598	35,849,244	250	11,446,597	10,346,493	103,648,287	92,922,106

The <u>CoStar Retail Report Year End 2008</u> reported that over the last four quarters, a total of 7,847,296 square feet of space was built. There is a total of 788,244 square feet vacant in the market, with the vacancy rate currently sitting at 9.3%. Rental rates are being quoted at \$19.60 per square foot. A total of 35 properties with 907,591 square feet of space were built and completed with 2,110,717 square feet still under construction at the end of the quarter.

Phoenix retail sales figures fell during 3rd Quarter 2008 in terms of dollar volume compared to 2nd Quarter 2008. In 3rd Quarter 2008, 11 retail transactions closed with a total volume of \$118,860,042. The 11 buildings totaled 420,710 square feet and the average price per square foot equated to \$282.52 per square foot. That compares to 24 transactions totaling \$192,664,067 in 2nd Quarter 2008. The total square footage in 2nd Quarter was 1,182,632 square feet for an average price per square foot of \$162.91. Total retail center sales activity in 2008 was down compared to 2007. In the first nine months the market saw 53 retail sales transactions with a total volume of \$502,826,715. The price per square foot averaged \$150.19. In the same first nine months of 2007, the market posted 107 transactions with a total volume of \$883,021,608. The price per square foot averaged \$165.90. Overall capitalization rates have been higher in 2008, averaging 7.16% compared to the same period in 2007 when they averaged 6.91%.

TOTAL RETAIL MARKET STATISTICS

Year-End 2008

	Existi	ng Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total GLA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area	461	13,596,163	924,124	989,829	7.3%	(328,296)	156,330	0	\$20.35
Central Corridor	125	1,504,465	223,405	223,405	14.8%	(6,813)	34,519	0	\$18.86
East Phoenix	431	8,265,259	683,632	724,774	8.8%	(277,849)	12,899	2,552	\$16.00
East Valley	2.066	60,504,904	5,421,241	5,650,568	9.3%	1,060,489	2,698,474	1,268,357	\$18.83
Northwest Phoenix	1.474	39,429,780	3,776,649	3,928,574	10.0%	344,064	1,527,329	307,620	\$18.65
Paradise Valley	616	13,773,287	1,005,990	1,020,141	7.4%	(202,465)	59,031	18,200	\$18.40
Scottsdale	707	21.188.120	1,770,455	1,840,881	8.7%	(596,484)	139,809	0	\$23.85
West Phoenix	1,480	34,906,333	3,340,467	3,556,035	10,2%	1,692,367	3,218,905	513,988	\$21.28
Totals	7,360	193,168,311	17,145,963	17,934,207	9.3%	1,685,013	7,847,296	2,110,717	\$19.60

Source: CoStar Property®

TOTAL RETAIL MARKET STATISTICS

Year-End 2008

	Existin	g Inventory		Vacancy			Di	eliveries	UC	nventory	Quoted
Period	# Blds	Total GLA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total GLA	# Blds	Total GLA	Rates
2008 4q	7,360	193,168,311	17,145,963	17,934,207	9.3%	(1,019,148)	35	907,591	58	2,110,717	\$19.60
2008 3q	7,325	192,260,720	15,488,867	16,007,468	8.3%	2,151,652	85	3,191,639	87	2,641,258	\$19.59
2008 2q	7,241	189,073,143	14,506,773	14,971,543	7.9%	(304,257)	49	1,345,739	144	5,204,312	\$20.03
2008 1a	7,193	187,729,448	12,893,872	13,323,591	7.1%	856,766	52	2,402,327	170	5,792,936	\$19.79
2007 4q	7,141	185,327,121	11,515,124	11,778,030	6.4%	728,682	51	1,804,415	135	6,321,437	\$20.34
2007 3q	7,091	183,524,981	10,413,293	10,704,572	5.8%	2,599,422	46	2,234,322	148	7,474,758	\$20.26
2007 2a	7,046	181,398,459	10,715,115	11,177,472	6.2%	2,071,212	79	2,435,170	150	8,128,967	\$20.31
2007 1a	6,967	178,963,289	10,336,210	10,813,514	6.0%	2,182,804	112	2,692,816	199	9,460,988	\$20.13
2006 4a	6,858	176,572,670	10,204,299	10,605,699	6.0%	2,149,160	81	2,361,018	235	8,935,772	\$19.90
2006 3a	6,778	174,219,923	10,012,496	10,402,112	6.0%	999,611	34	673,088	274	10,145,867	\$19.59
2006 2a	6.745	173,559,499	10,324,002	10,741,299	6.2%	1,551,542	57	1,509,743	204	8,458,065	\$19.01
2006 1a	6,688	172,049,756	10,403,683	10,783,098	6.3%	1,165,490	68	2,235,294	173	6,379,524	\$16.67

Source: CoStar Property®

Office - The CoStar Office Report Year-End 2008 reported that the Phoenix metropolitan area office market net absorption was negative 855,245 square feet in 4th Quarter 2008. That compares to negative 236,925 square feet in 3rd Quarter 2008, negative 25,434 square feet in 2nd Quarter 2008, and positive 87,784 square feet in 1st Quarter 2008.

There were 3,799,258 square feet of office space under construction at the end of 4th Quarter 2008.

TOTAL OFFICE MARKET STATISTICS

Year-End 2008

	Existi	ng inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area	416	13,664,463	1,937,317	2,150,901	15.7%	420,711	1,235,457	118,790	\$22.23
Central Corridor	543	21,263,134	2,671,123	2,815,887	13.2%	(53,013)	96,484	1,030,000	\$26.63
East Phoenix	797	19,367,043	3,297,404	3,534,828	18.3%	(481,702)	447,178	484,264	\$27.49
East Valley	1,903	23,925,344	4,940,227	5,055,695	21.1%	(305,588)	1,607,484	1,005,845	\$25.25
Northwest Phoenix	1,149	22,776,558	4,046,420	4,245,934	18.6%	(225,854)	870,726	86,149	\$22,90
Paradise Valley	423	7,658,245	1,108,360	1,178,501	15.4%	(146,838)	163,736	17,311	\$23.44
Scottsdale	1,384	28,754,955	5,600,637	6,209,872	21.6%	(223,766)	1,799,497	881,502	\$27,10
West Phoenix	756	9,687,690	2,206,508	2,259,054	23.3%	(13,770)	952,103	175,397	\$25.16
Totals	7,371	147,097,432	25,807,996	27,450,672	18.7%	(1,029,820)	7,172,665	3,799,258	525.49

Source: CoStar Property®

TOTAL OFFICE MARKET STATISTICS

Year-End 2008

	Existin	g Inventory		Vacancy		Net	De	liveries	UCI	nventory	Quoted
Period	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2008 4g	7,371	147,097,432	25,807,996	27,450,672	18.7%	(855,245)	36	1,303,486	62	3,799,258	\$25.49
2008 3g	7,336	145,831,976	23,618,663	25,329,971	17.4%	(236,925)	123	2,208,506	97	5,020,744	\$25.78
2008 2g	7,213	143,623,470	21,465,811	22,884,540	15.9%	(25,434)	25	903,327	206	7,065,768	\$26.01
2008 1q	7,189	142,776,153	20,588,426	22,011,789	15.4%	87,784	79	2,757,346	218	6,850,669	\$26.04
2007 4q	7,111	140,029,307	18,157,476	19,352,727	13.8%	147,274	79	1,553,692	249	8,488,604	\$25.99
2007 3q	7,032	138,475,615	17,004,676	17,946,309	13.0%	856,100	80	1,890,723	278	7,784,921	\$25.41
2007 24	6,953	136,595,936	16,169,869	16,922,730	12.4%	1,053,434	112	1,923,587	315	8,434,204	\$25.20
2007 1q	6,842	134,738,465	15,177,258	16,118,693	12.0%	629,636	136	2,535,597	365	8,995,323	\$24.86
2006	6,707	132,206,368	13,291,889	14,216,232	10.8%	7,189,546	440	6,187,970	399	9,253,998	\$24.44
2005	6,268	126,026,398	14,286,608	15,225,808	12.1%	6,806,657	358	3,883,079	432	7,562,910	\$21.97
2004	5,918	122,374,391	17,236,095	18,380,458	15.0%	4,322,677	281	5,397,232	315	3,262,305	\$19.97
2003	5,637	116,977,159	15,943,256	17,305,903	14.8%	4,004,369	218	3,052,836	209	4,575,163	\$19.55
2002	5,423	114,016,084	16,545,036	18,349,197	16.1%	1,431,735	150	4,139,600	146	3,235,519	\$19.92
2001	5,280	110,117,495	14,197,734	15,882,343	14.4%	2,661,805	219	7,137,845	104	3,418,326	\$20.89
2000	5,062	102,995,466	10,450,272	11,422,119	11.1%	2,342,895	166	5,171,438	170	6,532,457	\$20.47
1999	4.899	97,833,635	7,867,891	8,603,183	8,8%	3,100,525	148	6,098,184	136	5,042,576	\$20.31

Source: CoStar Property®

Total office building sales activity in 2008 was down compared to 2007. In the first nine months of 2008, the market saw 47 office sales transactions with a total volume of \$817,725,782. The price per square foot average was \$233.93.

Overall capitalization rates have been higher in 2008, averaging 7.05% compared to the same period in 2007 when they averaged 6.78%

Industrial Overview – Total industrial inventory in the Phoenix metropolitan area amounted to 278,296,840 square feet in 9,161 buildings as of the end of 4th Quarter 2008, according to The CoStar Industrial Report, Year-End 2008. Within the industrial market there were 1,806 owner-occupied buildings accounting for 63,109,461 square feet of industrial space.

The Phoenix industrial market ended 4th Quarter 2008 with a vacancy rate of 14.3% which was 4.4% higher than 4th Quarter 2007.

TOTAL INDUSTRIAL MARKET STATISTICS

Year-End 2008

Market	(SEE SECTION OF SECTIO	ng Inventory Total RSA	Direct SF	Vacancy Total SF	Vac %	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
Airport Ind	1,820	49,901,489	5,302,970	5,767,619	11.6%	(1,061,559)	815,943	0	\$8.35
Northeast Ind	756	16,200,035	1,885,139	2,034,426	12.6%	(63,843)	217,908	0	\$13.72
Northwest Ind	2,422	54,171,640	7,052,627	7,154,060	13.2%	(1,098,081)	1,306,123	214,865	\$8.23
Southeast ind	3,029	84,747,039	11,014,650	11,566,242	13.6%	(1,378,657)	3,322,447	609,527	\$9.41
Southwest Ind	1,134	73,276,637	13,107,394	13,325,225	18.2%	844,248	5,034,199	1,352,110	\$5.26
Totals	9.161	278,296,840	38,362,780	39,847,572	14.3%	(2,747,892)	10,696,620	2,176,502	\$7.73

Source: CoStar Property®

TOTAL INDUSTRIAL MARKET STATISTICS

Year-End 2008

	Existin	g Inventory		Vacancy		Net	De	liveries	UCI	nventory	Quoted
Period	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2008 4q	9,161	278,296,840 (38,362,780	39,847,572	14.3%	(1,300,394)	21	1,167,532	31	2,176,502	\$7.73
2008 3q	9,141	277,147,369	36,166,957	37,397,707	13.5%	149,154	54	2,521,078	51	3,296,413	\$7.80
2008 2q	9,087	274,626,291	33,683,909	35,025,783	12.8%	(1,525,818)	50	3,975,813	84	5,151,879	\$7.96
2008 1q	9,037	270,650,478	28,512,601	29,524,152	10.9%	(70,834)	61	3,032,197	121	7,443,220	\$8.16
2007 4q	8,976	267,618,281	25,494,459	26,421,121	9.9%	(313,572)	59	3,360,180	133	8,633,932	\$8,11
2007 3q	8,917	264,258,101	21,857,448	22,747,369	8.6%	1,383,445	42	1,313,392	176	11,277,723	\$8,11
2007 2q	8,877	263,225,709	21,998,376	23,098,422	8.8%	2,420,504	63	3,250,315	150	10,498,517	\$7.89
2007 1g	8,815	260,197,154	21,420,704	22,490,371	8.6%	1,056,191	65	2,797,412	160	9,837,124	\$8.15
2006	8,753	257,689,939	19,730,737	21,039,347	8.2%	5,264,935	238	7,715,386	164	9,441,474	\$7.82
2005	8,519	250,249,193	17,718,641	18,863,536	7.5%	10,520,939	159	5,699,034	187	5,209,707	\$7.25
2004	8,365	244,648,467	22,746,197	23,783,749	9.7%	6,878,341	163	4,671,626	97	3,965,314	\$6.87
2003	8,208	241,372,681	25,829,685	27,386,304	11.3%	2,182,605	98	3,447,252	92	2,634,897	\$7.29
2002	8,110	237,925,429	23,636,386	26,121,657	11.0%	293,857	98	4,849,574	62	2,645,681	\$6.48
2001	8,018	233,182,857	19,697,781	21,672,942	9.3%	3,261,199	141	6,999,536	82	4,659,444	\$6.53
2000	7,880	226,200,021	16,922,452	17,951,305	7.9%	5,515,014	164	6,891,691	126	7,758,803	\$7.98
1999	7,723	219,431,558	15,555,880	16,697,856	7.6%	2,565,648	196	7,468,874	114	5,085,874	\$5,90

Source: CoStar Property®

Rental rates ended 4th Quarter 2008 at \$7.76 per square foot per year, which is down from \$8.22 per square foot from the year before.

A total of 21 buildings were delivered in 4^{th} Quarter 2008 totaling 1,167,532 square feet with 2,176,502 square feet still under construction at the end of the quarter.

Net absorption for the metropolitan Phoenix industrial market was negative 1,300,394 square feet in 4th Quarter 2008.

Total year-to-date industrial building sales activity in 2008 was down compared to the previous year. In the first nine months of 2008, the market saw 112 industrial sales transactions with a total volume of \$763,293,479. The price per square foot averaged \$78.84 in 2008. In the 2007, the average price per square foot was \$99.75.

Overall capitalization rates have been higher in 2008, averaging 6.96%, compared to the first nine months of last year when they averaged 6.70%.

<u>Lodging</u> - By 2005, Phoenix had 55,145 guest rooms. Almost all of the new hotels being constructed were small, limited-service properties, 120 to 150 room in size. The following chart illustrates the rise and fall of the growth in supply:

GRO	WTH OF H	OTEL RO	OMS					
Metropolitan Phoenix 1984-2002								
1984	777	1994	215					
1985	1,676	1995	887					
1986	1,748	1996	1,170					
1987	5,204	1997	2,837					
1988	2,293	1998	3,752					
1989	1,941	1999	3,889					
1990	426	2000	3,220					
1991	305	2001	NA					
1992	0	2002	2000					
1993	0	2003	NA					

Source: Pullen & Co.

In 2000, overbuilding resulted in a softening of rates and occupancy. According to <u>Arizona Lodging Insights</u>, published by Warnick & Co., in an Arizona Republic newspaper article dated June 8, 2000, demand for rooms increased 5.8 percent for supply grew by 6.9 percent. In the first three months of 2000, hotels filled 74.6 percent of their rooms, down 0.8 percent from 1999. Average daily rates declined 0.3 percent to \$124.18. Revenue per available room declined 1.4 percent to \$92.64. Their statistics, which are provided by Smith Travel Research, indicated that 4,260 new rooms were added in 1999, which is greater than the number shown in the chart above.

By May, 2001, additions to new supply had virtually halted, according to a newspaper article in the Business Journal. Only 382 new rooms were slated to be opened in 2001 in two facilities and 100 rooms were to be added in an existing resort. Analysts at the time felt that the lodging market was improving, but the state of the economy was key.

By April, 2002, the decline in the economy in Arizona and nationwide coupled with the effects of September 11, revenue per available room had fallen 7 percent according to a newspaper article in the Business Journal. This market segment did not recover in 2002 or 2003 given the continued slowdown in the economy.

According to a January, 2005, Arizona Republic article in which Smith Travel Research was quoted, the Phoenix metropolitan area finished 2004 with a 7.3% rate of increase in occupancy to 63.6 percent; 3.3% growth in average daily room rate to \$97.42; and 10.8% growth in revenue per available room or \$62.01. But by late-2008, occupancy had fallen from 60.6% to 53.7% over one year. Revenue to available room was at a level of \$63.52 to \$57.75.

The anticipation of the 2008 Super Bowl amplified the enthusiasm to build additional hotel rooms throughout the Phoenix metropolitan area. As of mid-2007, 6,041 new hotel rooms were schedule to come on line by year-end 2009. This amount was 11.5 ± 100 percent of the existing room supply.

Financial and Lending Industry

Interest rates have decreased, but there is a reduced supply of willing lenders and investors seeking returns from mortgages and deeds of trusts given the recent lending, banking and mortgage investment crisis.

Governmental Forces

There are basically three levels of government servicing metropolitan Phoenix: state, county and municipal (city) levels. Additionally, other special districts, such as school systems and irrigation districts, levy taxes and provide services. Primary revenue sources utilized by state government include a personal state income tax and a sales tax on retail items purchased in the state. Property taxes and a retail sales tax are the primary funding for the lower levels of government.

It appears that the factors of government and regulation do not unfairly burden real estate development. Local governments are generally well-staffed, organized and funded to support most community services and facilities. They are fairly liberal regarding change in land use. The cities and counties restrict commercial and industrial more than before with strong requirements for attractive design, open space, sign size and type, parking, and compatibility with surrounding residential areas. Although their requirements may drive up developers' costs, the end product has proven to be more appealing and marketable.

Education/Schools

The Phoenix metropolitan area is served by 55 school districts with 353 \pm elementary schools and 60 \pm high schools. Additionally, there are roughly 200 parochial and private schools in the area. Arizona State University, based in Tempe, is the state's largest university with enrollment of approximately 66,000 students on three campuses (main, ASU West campus and ASU East) and hopes to have 90,000 by 2020. Eleven community colleges also serve the area.

Utilities

Water, electricity, and gas availability has not generally been a problem in the Phoenix area, but utility companies can affect the demand for real estate. The Phoenix area has had the least problems with water supply as it is well protected by acquired water rights and deep untainted wells. The metropolitan area is primarily served by Salt River Project and Arizona Public Service, the two principal suppliers of electricity in the metropolitan

area. Sewer service is provided by each city and gas is primarily distributed by Southwest Gas and the City of Mesa. Overall, utility costs in the subject are average when compared with similar large metropolitan areas.

Real Estate Taxes

Another expense incurred in the operation of real estate is taxes. Commercial and industrial properties top the scale with a 25 percent assessment of current value. Residential properties are assessed at 10 percent of current value; 10 percent for residential rentals; and 16 percent for vacant land. Developers and investors indicate that the tax burden is not generally repressive to the operation of real property and an effective tax appeal system allows for adjustment.

Social Factors

Demographics

HOUSEHOLDS BY TYPE							
Total households	465,834	100					
Family households (families)	307,243	66					
With own children under 18 years	166,357	35.7					
Married-couple family	218,516	46.9					
With own children under 18 years	113,190	24.3					
Female householder, no husband present	59,949	12.9					
With own children under 18 years	37,656	8.1					
Nonfamily households	158,591	34					
Householder living alone	118,422	25.4					
Householder 65 years and over	29,249	6.3					
Households with individuals under 18 years	185,126	39.7					
Households with individuals 65 years and over	78,292	16.8					
Average household size	2.79						
Average family size	3.39						
HOUSING OCCUPANCY							
Total housing units	495,832	100					
Occupied housing units	465,834	93.9					
Vacant housing units	29,998	6.1					
For seasonal, recreational, or occasional use	4,545	0.9					
Homeowner vacancy rate (percent)	1.4						
Rental vacancy rate (percent)	7.9						
HOUSING TENURE							
Occupied housing units	465,834	100					
Owner-occupied housing units	282,670	60.7					
Renter-occupied housing units	183,164	39.3					
Average household size of owner-occupied unit	2.89						
Average household size of renter-occupied unit	2.63						
Source: U.S. Census Bureau							

Subject	Number Percer	¥t
Total population	1,321,045	100
SEX AND AGE		
Male	671,760	50.9
Female	649,285	49.1
Under 5 years	114,516	8.7
5 to 9 years	111,367	8.4
10 to 14 years	99,471	7.5
15 to 19 years	97,425	7.4
20 to 24 years	103,873	7.9
25 to 34 years	227,481	17.2
35 to 44 years	211,442	16
45 to 54 years	157,615	11.9
55 to 59 years	52,623	4
60 to 64 years	38,437	2.9
65 to 74 years	58,309	4.4
75 to 84 years	36,879	2.8
85 years and over	11,607	9.0
Median age (years)	30.7	
18 years and over	938,610	71.1
Male	475,454	36
Female	463,156	35.1
21 years and over	877,536	66.4
62 years and over	128,552	9.7
65 years and over	106,795	8.1
Male	44,476	3,4
Female	62,319	4.7
RELATIONSHIP		
Total population	1,321,045	100
In households	1,298,577	98.3
Householder	465,834	35.3
Spouse	218,516	16.5
Child	408,328	30.9
Own child under 18 years	329,177	24.9
Other relatives	106,103	8
Under 18 years	40,794	3,
Nonrelatives	99,796	7.4
Unmarried partner	34,849	2.0
In group quarters	22,468	1,
Institutionalized population	12,948	,,

Recreation

A full range of recreational amenities are available in the Phoenix metropolitan area including more than 100 golf courses, two water parks, and several major and minor league sports teams. Spring training is a major attraction and significant contributor to the economy.

US Airways Center (formerly America West Arena), a 19,100 seat arena, was built in June, 1992, in downtown Phoenix. It is host to the Phoenix Suns, Mercury, and Rattlers. The Phoenix Coyotes have moved to their new facility, Jobing.com Arena, in Glendale.

In 1994, Arizona was awarded a baseball expansion franchise. To accommodate the *Diamondbacks*, a new 48,500-seat stadium, Chase Field (formerly Bank One Ballpark), was built on a 24.84-acre site the southwest corner of Jefferson and 7th Street in March, 1998. The facility hosted the World Series in 2001.

In January, 1996, the nation's largest sporting event, Superbowl XXX, was hosted in Tempe at Sun Devil Stadium, an open air facility. Superbowl XLII was held in February, 2008, at the University of Phoenix Stadium, a domed stadium completed in 2006 for the Arizona Cardinals in Glendale, Arizona, next door to Jobing.com Arena.

Conclusion and Outlook

Despite the current downturn in the real estate market, economic and real estate growth will be stronger than the country's average in the long run given the appealing location, climate, available buildable land, educated and young work force and history of inmigration of commerce, industry and people.

NEIGHBORHOOD ANALYSIS

Location and Neighborhood Boundaries

The subject property was located south of Van Buren Street and west of 19th Avenue in Phoenix, Arizona. The neighborhood boundaries were set as follows:

North - Interstate-10
South - Buckeye Road
East - 7th Street
West - Interstate-17

These major roadways and transportation corridors serve to delineate the heart of downtown Phoenix and the governmental corridor which recently experienced a substantial amount of new development and land speculation related to a variety of sources including the ASU Downtown Campus, Translational Genomics Research Institute (TGen), Light Rail, Phoenix Biomedical Center at Copper Square, University of Arizona College of Medicine-Phoenix and the expansion of the Phoenix Convention Center.

Transportation

Freeways

The Papago Freeway (Interstate-10), located about one mile north of the subject property, carries a large amount of traffic through central Phoenix. The completion of the Papago Freeway in early 1990 provided a badly-needed linkage between central Phoenix and the existing freeway system. According to the most recent traffic study (2007), this freeway carries between 247,000 and 284,000 vehicles per day across the neighborhood.

Major Surface Streets

As is typical of downtown areas, the neighborhood is well served by a grid of arterials and smaller streets, many of which are one-way. 19th Avenue, 7th Avenue and 7th Street are section-line north/south arterials carry traffic from downtown to other parts of the city. The most important city street is Central Avenue which bisects the neighborhood in a north/south direction. The blocks bordering Central Avenue have traditionally formed the most important main business and financial district in the city. Other districts and corridors are now offering strong competition but businesses still seek a north Central Avenue address. Most of the city's high-rise buildings are found along Central Avenue, from Jefferson Street on the south to Camelback Road on the north, a distance of 4.3 miles.

3rd Street, 3rd Avenue, 5^{th} Avenue and Roosevelt Street serve as collector streets through the neighborhood.

F Phoenix ■ Prep. Academy Verde S N S **♣** North ROOSEVELT Symphony Heritage Hall Heritage GIVIC & Science **T33** 4 ARIZONA CENTER Central Transit Station PLAZA Margaret T. Hance Park Irish Cultural Center ٠.0 Central Park America ○ West ☐ Arena AVENUE ① **(EJEFFERSON** Jap. Fmdshp. ¹ Garden Shariff's TSI Z N N Grant Park Portland Parkway W Phoenk Wern. Union Station S 4 Lo で 2016年 - 1218年 - 12184年 - 1218 WASHINGTON Carnegle Library — -85.58 University Park BUCKEYE PAPAGO Pioneer & Military Memorial Park ROOSEVELT ⋖ MAE AMS ST State Bolln Capitol Memorial 4 ADÁMS E KND ject 613 AVENUE Sherman Parkway FFERSON EXA STATE OF THE S BTVCK *******

NEIGHBORHOOD MAP

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DASH Day Route: Mon-Fri 6:30am-5:30pm on the manner of the

Copper Square

METRO Light Rail Route Prix Point of Pride

ARIZONA STATE OFFICES

- Arizona Counties Government Center
- Arizona Records Retention Center
- Arizona State Land Department
- Corporation Commission Department of Administration
- Department of Corrections
- Department of Economic Security
- Department of Environmental Quality Department of Health Services
- (2 Loc)
- Department of Mines & Minerals
- Department of Revenue
- Department of Transportation (4 Loc)
- Industrial Commission
- League of Arizona Cities and Towns
- Motor Vehicle Division
- Occupational License Building
- Office of Attorney General
- State Capitol Complex
- State Courts Building
- State Education Building
- State Health Laboratory and General **Accounting Center**
- State Offices
- State Personnel Office

MARICOPA COUNTY BUILDINGS

- 4th Ave. Jail
- Clerk of Superior Court Customer Service Center
- County Administration Building
- **County Court Complex**
- County Downtown Justice Center
- County Environmental Services
- County Facilities Management
- County Human Services
- County Materials Management
 - Forensic Science Center (Office of the Medical Examiner)
- Justice Center Building
- Madison St. Jail (2 Loc)
- Sheriff's Office
- West Courts Building

CITY OF PHOENIX BUILDINGS

- Calvin C. Goode Municipal Building
- City Hall
- Personnel Building
- Phoenix Criminal Justice & Municipal Center
- Phoenix Police Museum
- **Phoenix Transit Central Station**
- Police and Public Safety Building
- Police Crime Laboratory
- Superior Court Probate Division

OTHER MAJOR BUILDINGS

- Arizona Capitol Times
- ASU College of Healthcare Innovation & Nursing
- **ASU Residential Commons**
- ASU University Center
- AT&T Communications
- Bank of America Tower
- Best Western Executive Park Hotel
- **Burton Barr Central Library**
- Capital Centre
- **CASS Social Services**
- Catholic Diocese of Phoenix Headquarters
- Chase Tower
- Collier Center (Bank of America Tower)
- Compass Bank Building
- (Maricopa Association of Government)
- Embassy Condominiums
- Holiday Inn Express
- Hyatt Regency Hotel KOY / KYOT / KZON Building KPNX-TV NBC (Channel 12)
- KSAZ-TV FOX (Channel 10)
- Luhrs Tower Complex
- Met Apartments, The
- One North First Street Building
- Orpheum Lofts
- Papago Medical Plaza
- Phelps Dodge Tower at One Central

- Phoenix Cable Channel 11
- Phoenix Convention Center North
- Phoenix Convention Center South
- Phoenix Job Corps Center
- Phoenix Newspapers (2 Loc)
- Post Roosevelt Square Renaissance Park Townhomes
- Renaissance Square (One and Two)
- Rio Salado Adult Learning Center
- Salvation Army; Phoenix Silvercrest
- San Carlos Travelodge Hotel
- Security Center
- Sheraton Phoenix Downtown (under construction)
- Translational Genomics Research Center (TGEN)
- United States Courthouse
- Sandra Day O'Conner US Courthouse
- Wells Fargo Plaza Westward Ho (retirement facility)
- Ō Wyndham Hotel
- YMCA
- 44 Monroe Building

POINTS OF INTEREST

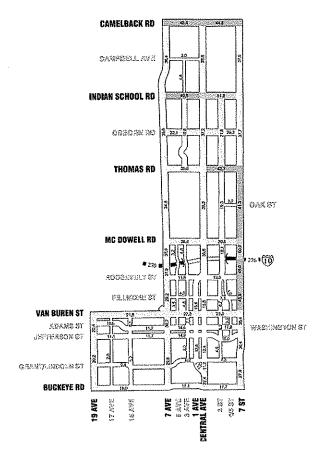
- American Legion Post #1
- Arizona Center
 - Arizona Hall of Fame Museum
 - Arizona Mining and Mineral Museum (See Arizona State Offices)

- Arizona Science Center Arizona Theatre Company
- ASU Mercado
- Cesar Chavez Memorial Plaza
- Chase Field
- Dodge Theatre
- Evans House
- Herberger Theater Center
- Heritage Square
- Historic First Church
- Historic Phoenix Union Station
- Irish Cultural Center
- Japanese Friendship Garden
- Orpheum Theater
- Patriots Square Park ♦ ∰
 - Phoenix Center, The
- Phoenix Family Museum (Fall '06)
- Phoenix Museum of History
- Phoenix Preparatory Academy
- Pioneer and Military Memorial Park
- Rock & Roll Hall of Fame West Smurthwaite House (historical)
- St. Mary's Basilica
- St. Mary's Food Bank
- Symphony Hall
 - University of Arizona College of Medicine - Phoenix
- **US Airways Center**
- Valley Youth Theater
- Wells Fargo History Museum

High-rise development will be slow to spread east and west to 7th Street and 7th Avenue as long as land within the Central Avenue corridor, from 3rd Avenue to 3rd Street is available. Enough vacant or under-improved land exists along Central Avenue for continued development for many years to come.

Van Buren Street, an east/west section-line road passes through the center of the neighborhood and serves as a connector for traffic traveling within and passing through the neighborhood. Washington Street, one-way west, and Jefferson Street, one-way east, also serve as east/west connectors in and through the neighborhood. They are the primary connection between the downtown business district with the governmental mall and surrounding offices between 7th Avenue and 19th Avenue.

Grand Avenue is Phoenix's only diagonal arterial. Grand Avenue begins at Van Buren Street and 7th Avenue and extends northwest across the metropolitan area exiting at Sun City. Although Grand Avenue was once a primary street carrying traffic to and from the neighborhood, the completion of the Papago Freeway reduced the traffic count along Grand Avenue by over 20 percent.

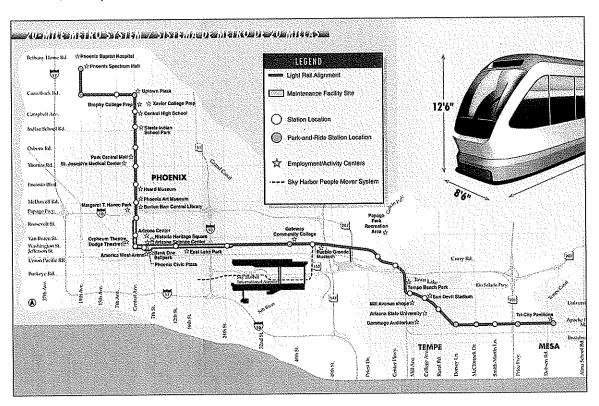


Public Transportation

Public transportation is provided by *Valley Metro* bus lines which have routes along most of the major arterials traversing the neighborhood.

A light rail transit system has recently been completed in central Phoenix. "The Metro" is a 20-mile route beginning just south of the intersection of 19th Avenue and Bethany Home Road. It follows 19th Avenue, turns east on Camelback Road, then south through uptown, mid-town and downtown Phoenix along the center of Central Avenue. At Washington Street, it turns east again and proceeds into east Phoenix, Tempe and Mesa terminating just east of Dobson Road. A line is also centered in Jefferson Street and in 1st Street to serve downtown.

Construction began in the summer of 2004 and was completed in 2008. It was expected to initially carry about 15,000 passengers per day. At last count, it was exceeding expectations. It seems to have had a positive effect on the appeal and marketability of land and improved properties along its length and has encouraged high-density infill development. Proponents say the project will help further revitalize the downtown areas of Phoenix, Tempe and Mesa.



Land Uses and Neighborhood Characteristics

Physically, downtown Phoenix is bounded by 7th Street, 7th Avenue, Fillmore Street and Jackson Street although the city's "Downtown" planning area extends north to McDowell Road and south to Lincoln Street. The Downtown planning area is divided into various planning districts, from north to south, listed as follows:

Roosevelt District - This district includes the area between Fillmore Street on the south to McDowell Road on the north, and from 1st Avenue on the east to 7th Avenue on the west. It is more commonly known as the Roosevelt Historical District. The area

primarily consists of a mix of older apartment buildings and older single-family residences built in the early 1900s, some which have been converted to office space. Much of this neighborhood has a historic preservation zoning overlay which encourages preservation and renovation of the existing structures rather than demolition, assemblage, and redevelopment. For this reason, large assemblage and redevelopment in this section of the downtown area has been slow to occur.

<u>Central Avenue Corridor</u> – This district starts at Fillmore Street and extends north to Portland Street and is bounded on west and east by 1st Avenue and 1st Street. Land uses are foreseen to be high intensity linking downtown with mid-town. As of the date of valuation, this district had seen little redevelopment.

<u>East Roosevelt</u> – This district extends east of the Central Avenue Corridor from 1st Street to 7th Street and from Fillmore Street to both Portland Street and Interstate-10. The city would like to encourage garden offices and high density housing. Vacant land and deteriorating housing remain common.

<u>Downtown Core</u> – This area is bounded by Fillmore Street on the north, Madison Street on the south, 3rd Avenue on the west and 7th Street on the east. The area is intended for high intensity, pedestrian, business center with visitor-oriented cultural, retail and entertainment activities.

<u>Fillmore West</u> - This district is bounded by Fillmore on the north, Van Buren Street on the south, 7th Avenue on the west and 3rd Avenue on the east. The district is seen by the city as one that will include high density residential development for middle income workers, garden office projects, institutional uses, and neighborhood retail establishments. At this time little change has occurred in the area except for the use of some of the land for county facilities and the former Thomas J. Pappas School.

Monroe West - The City of Phoenix delineates the area between 3rd Avenue, 7th Avenue, Adams Street and Fillmore Street as "Monroe West" on the Downtown Plan. According to the city, this area provides needed services facilities and peripheral parking for the downtown core. Repair shops, day care centers, budget motels, single-room occupancy hotels, institutions and general commercial users inhabit the older buildings and inexpensive space. The newest addition to this district was the construction of a McDonald's restaurant at the southeast corner of Van Buren Street and 7th Avenue.

Governmental Mall - The city identifies this district with the boundaries of Washington and Harrison Streets and 1st to 19th Avenues. This area includes both the new and old city halls, Federal Courthouse buildings, city offices, two Maricopa County Superior Court buildings, jail facilities, and other governmental office space. The state capital complex is located along Washington and Jefferson Streets at 17th Avenue. Most major state agencies occupy office space in this corridor extending west of downtown. Given the subject's location, it has added marketability given the growth of government and their need for land and buildings downtown.

Public Uses

Due to a combination of private and public redevelopment, the downtown area experienced a resurgence during the 1970s that included the construction of two hotels and three high-rise office buildings. The major catalyst for this upturn in development was the construction of the Phoenix Civic Plaza in 1972. The Civic Plaza, between Monroe and Jefferson Streets and from 4th to 7th Street, includes a 6,500-seat exhibit hall; a 4,000-seat multi-purpose assembly hall; the 2,563-seat Symphony Hall; and various meeting and convention rooms. A \$36.4 million expansion of the Civic Plaza on the four blocks immediately south of the existing Convention Center was completed in 1983. The city recently completed a second \$600 million expansion which tripled the size of the center with over 900,000 square feet of rentable space providing a total of 2 million square feet.

A second resurgence began in the early 1990s with the completion of US Airway Center (formerly America West Arena), a sporting facility for the *Phoenix Suns* and other teams, city hall, Arizona Science Center, Orpheum Theater, Herberger Theater, Margaret T. Hance Park, Patriots Park, Phoenix Public Library, and various other private and public and developments. The latest addition to the number of public facilities downtown is Chase Field (formerly Bank One Ballpark), a retractable-domed baseball stadium at the southeast corner of 7th Street and Jefferson Street which was completed in early 1998. The combination of public and private facilities in the "new" downtown now draws residents for evening sporting events, plays, symphonies, art exhibits and other entertainment venues.

Arizona State University is partnering with the City of Phoenix to develop the ASU Downtown Phoenix Campus. The ASU Downtown Phoenix Campus is a major catalyst driving mid-rise and high-rise condominium development in the downtown area. At final build-out, the campus will be able to handle approximately 15,000 students, plus faculty and staff. Phase one will include 300,000 square feet of academic and support space for the University College and College of Nursing. It opened for approximately 2,500 students in the fall of 2006. Phase two added 5,000 students and 500,000 square feet of space in the fall of 2008. In March 2006, Proposition 3 allocated \$223 million in bond money to fund ASU's Downtown Phoenix Campus. The City of Phoenix has purchased nearly \$100 million in land to provide space for the first phase. The campus is expected to occupy about 20 acres of land extending from approximately Van Buren Street on the south to Fillmore Street on the north and from Central Avenue on the west to 1st, 2nd and 3rd Streets on the east as the boundary borders other developments.

Commercial/Retail

Despite the success of some of the retail/restaurant development in the Arizona Center, demand for additional retail development is limited. No major grocery store serves the neighborhood. Small shops and stores fill first floor retail space along the sidewalk in many of the office buildings in the downtown core. But residents must leave the area for neighborhood and major shopping needs.

Office

The neighborhood includes what is referred to as the "Downtown South Phoenix" office submarket. It contains over 8,200,000 square feet of office space in 187 buildings. These buildings house all types of office uses, including corporate headquarters and federal and local government agencies. As neighborhood the area includes many underdeveloped parcels, new office development is anticipated. Over the last twenty years, nearly three million square feet of new office space has been added.

In June, 2002, it was announced that the Translational Genomics Research Institute and International Genomic Consortium would locate their headquarters downtown. Subsequently a multi-story, 150,000 square foot building was constructed and houses approximately 400 scientists, researchers and staff. It occupies a portion of what the City of Phoenix hopes will be a 1 million square foot bio-research and education campus on a 15-acre site at the southwest corner of 7th Street and Fillmore Street.

Lodging

Downtown Phoenix currently has more than its share of hotels. The *Sheraton Hotel* was recently completed. It is a new 1,000-room, \$350 million hotel, located west of the Arizona Center. This project was developed utilizing a public finance model that uses hotel revenues to service municipal bonds. *Holiday Inn Express* occupies a site at Fillmore Street and 6th Street. Existing full service luxury hotels include the *Hyatt Regency* and the *Crowne Plaza*. Lesser hotels include the *Ramada*, and the *San Carlos*.

A strong economy, high occupancy levels, light rail and expansion of the Civic Plaza, the ASU campus, large events like the Superbowl resulted in plans for several new hotel projects in between 2004 and 2006. However, as the result economic downturn most of these projects have been put on hold. The *Hotel Palomar* a 205-room luxury hotel will occupy a portion of a 34-story tower as part of the *CityScape* project at Central Avenue and Jefferson Street is only hotel currently under construction in downtown. Other full service high-rise hotels have been proposed for downtown but without help from the city, their financial feasibility is in question.

Mixed-use and Multiple-family Housing

The Downtown area includes several "for lease" projects. New and proposed apartment projects are listed below.

- > The Abbey, a 109-unit apartment project, 302 West Monroe street, completed in 1996
- > Campaige Place, a 302-unit project at 201 West Jackson Street and completed in 2003.
- > Metropolitan Apartments, a 120-unit project, northwest corner of Fillmore and 3rd Streets, completed in 1997
- ➢ Post Roosevelt Square, developed in 2000 between 1st and 3rd Avenues north of Roosevelt, have approximately 620 rental units and ground level retail

➤ Legacy Bungalow, located on Van Buren Street just west of 1st Avenue; developed with 200 units in 2001

But many of the apartment complexes in the area are small, aged, not well maintained and cater to residents with sub-standard incomes. Also included in the residential category are group homes which cater to persons requiring rehabilitation. A small but noticeable homeless population walks the streets. Some buyers and residents avoid the area as a result.

Given the added employment opportunities and entertainment attractions downtown, an urban residential lifestyle is being accepted by many more than in the past. In anticipation of growth downtown, demand for residential condominium development has escalated.

Several large mixed use project are worth mentioning. In 2006, the city approved the \$900 million *CityScape* project. *CityScape* is a project under construction between Washington and Jefferson Streets, from 2nd Street to 1st Avenue. It will have four high-rise towers up to 500 feet tall with 2.5 million square feet at build-out with one million square feet of office space, 1,200 residential condominiums, 240,000 square feet of retail space (including AJ's, a first grocery store), a 150-room luxury boutique hotel and a redeveloped Patriot's Park and parking garage. The developer is in partnership with the City of Phoenix. Although construction on the project continues, it has been scaled back considerably. Construction of more than 1,000 condominiums in two buildings and 65 luxury apartments has been put on hold indefinitely. As such, the city is fast-tracking the project. Nevertheless, the first two blocks which include the office two, Hotel Palomar and retail plaza are under construction with occupancy scheduled for sometime in 2010.

Central Park East is a proposed 1,500,000 square foot project that will contain 200,000 square feet for ASU, 300,000 square feet of office space, a high-rise luxury condominium tower and 35,000 square feet of ground level retail. It was expected for completion in 2008 but the economy has slowed its progress.

Other new and proposed condominium projects are listed below.

- → 44 Monroe, 33-story building with 202 units under construction at Monroe Street and 1st Avenue; 743 to 2,121 square foot units priced from \$400,000 to \$1,200,000 with 3,500 square foot penthouses priced over \$3,000,000; to be completed in 2008
- > Artisan Village, nearing completion located at 615 East Portland Street is sold out; 3-stories with 105 units ranging from 1,202 to 1,982 square feet, prices starting at \$200,000
- Orpheum Lofts, completed and sold out in 2004, 11 stories with 90 units located at Adams Street and 1st Avenue; 700 to 1,800 square foot units priced from \$185,000 to \$1,500,000
- > Stadium Lofts, at 2nd Street and Buchanan Street, completed and sold out in 2004, 4 stories with 31 units; 1,233 to 2,000 square feet priced from \$285,000 to \$450,000
- ➤ The Summit at Copper Square, 31 stories under construction at 4th Street and Jackson Street, 165 units initially priced from \$441,000 to \$1,100,000, sizes range from 898 to 1,950 square feet, 40 percent sold out, completed in 2008

- ➤ *M Lofts*, to be located at the northwest corner of 3rd Street and Garfield Street, planned for 20 stories with 129 units, sizes range from 860 to 1,800 square feet, priced from \$300,000 to \$750,000, to be completed in early 2008
- > Z Lofts, 103 units planned from 2nd Street and Fillmore Street
- Cosmopolitan Towers, 78 units planned for 3rd Street and Pierce Street, priced from \$200,000 to \$2,600,000
- > RO3, 200 units planned for 3rd Street and Roosevelt Street, priced from \$200,000
- 215 East McKinley, 14 units in five stories, 600 to 1,400 square feet, priced between \$205,000 and \$570,000, sold out and to be completed in November, 2006
- > 125 West McKinley, planned for 65 units in fourteen stories, 800 to 3,000 square feet, priced from \$300,000 to over \$1,000,000, scheduled to break ground in fall of 2006

Detached Single-Family Residential Development

Although the area between 3rd Street and 3rd Avenue is dominated by office and other commercial uses, the outlying areas, north of Van Buren Street, are residential in character. Residential housing east of 3rd Street and west of 3rd Avenue consists primarily of older detached single-family homes. These are generally smaller homes between 900 and 1,500 square feet built between the 1920s and 1950s. Because of their varied architectural styles, proximity to downtown and their popularity with professionals, homes in the neighborhood are generally well kept and maintained. Many have been remodeled and updated. A few have been converted to office use along busy frontages. However, the housing west of 19th Avenue and extending south to Buckeye Road is old and deteriorated.

The city and residents desire to maintain the unique design and character of these older homes and neighborhoods. Thus, historical preservation districts have been established to protect them.

Although demand may exist, land prices have made single-family detached development infeasible. In fact, developers are purchasing lots with single-family residences for demolition and redevelopment.

No new detached single-family residential development is planned for the Phoenix downtown area by any developer but scattered may fill a few lots.

Industrial

Bordering the neighborhood on the south is a narrow district of light and heavy industrial uses. Rail availability and large switching yards will keep these uses in place. New light industrial and commercial/office development is spreading eastward from 7th Street along Jefferson and Washington Streets to the industrial areas surrounding the Sky Harbor International Airport at 24th Street.

Other

Other uses include a post office, bus transfer station, Orpheum Theatre, Herberger Theater Center, Phoenix Museum of History, St. Mary's Basilica, Symphony Hall, Valley Youth Theater, Web Theatre, Westward Ho (retirement hotel) and the YMCA. Schools include Genesis Academy, and the Desiderata Alternative.

Vacant Land

As discussed previously, there was a substantial amount of land speculation taking place within the subject neighborhood. As a result, land prices increased substantially from 2004 to 2007. But prices have declined significantly since. Many parcels of vacant land which were bought and planned for some form of residential or mixed residential and commercial use have not been improved in any way. As such, they appear to have become part of the vacant land supply once again.

Conclusions and Outlook

Until mid-2007, there were several catalysts driving the strong demand for developable land in downtown Phoenix. Land prices increased exponentially from 2004 to 2007 but the appreciation came to a halt and now prices and values are declining. Developers had been anticipating projects in excess of 20 stories in height to justify the high level of land prices. However, even prior to the economic downturn, prices had risen to heights where development became infeasible without financial concessions from the city and ever-increasing residential and commercial demand. Currently, every proposed project is on hold until the economy and real estate market improves. Many owners are facing foreclosure and land speculation is almost non-existent. In the long run, the marketability of the downtown Phoenix area is expected to be good. However, the levels of land speculation and development demand experienced in the mid-2000s are not likely to return in the foreseeable future.

Although the neighborhood is impressive as it includes the downtown core and the governmental mall, the demographics of the population are below average. The subject's corner of the neighborhood has the lightest and least appealing population base from the viewpoint of per capita income and education.

SITE ANALYSIS

ADDRESS:

CONTAMINATION:

1937 West Jefferson Street, Phoenix, Arizona

ASSESSOR'S PARCEL No.: Part of 109-49-072 SITE AREA: 30,000 ± square feet or 0.689 net acre The site area was defined on the description given by the client (Lots 5-10) but altered by the appraiser (deleting Lot 5) as not to encroach into the building improvements on the parcel to the east. Rectangular; 200.00' x 150.00' SHAPE AND DIMENSIONS: Level TOPOGRAPHY: DRAINAGE: The subject was not observed either during or immediately after any minor or major storms. A survey by an engineer is recommended to determine if any adverse drainage conditions exist. FLOOD ZONE:

According to FEMA flood map number 04013C 2130G, effective September 30, 2005, the subject property is within Flood Zone AE where flooding is expected, insurance is required by lenders for improved properties and the land requires special grading to elevate building pads out of flooding danger. However, the market perceives the likelihood of flooding to be slight and not adverse to the

marketability of real property.

No environmental study was provided for my review.

This appraisal assumed no contamination. Should any

be found, then at the minimum, the cost of detection, removal, transportation and storage should be

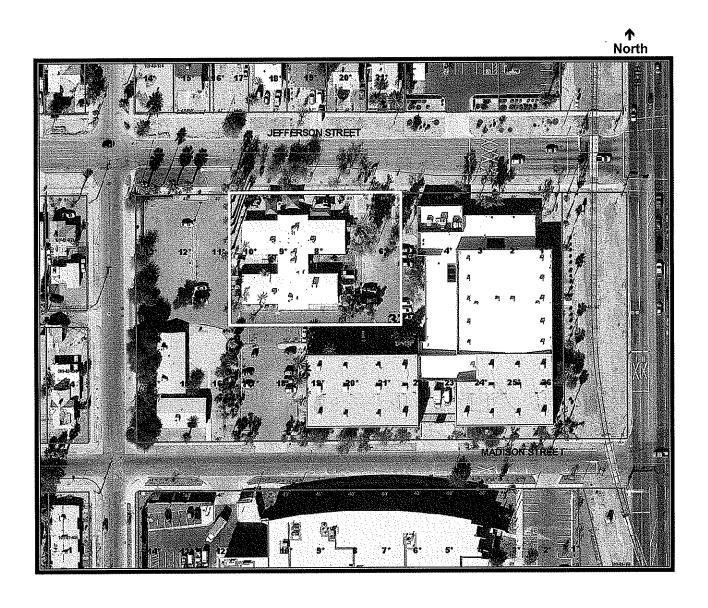
deducted from my opinion of market value.

SOIL: No adverse conditions were assumed. This appraisal

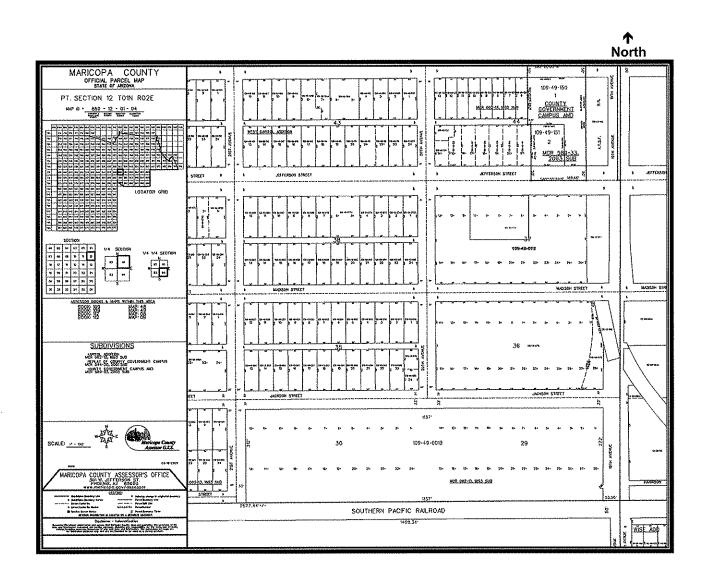
assumes no adverse soil conditions which would

preclude development of the site.

AERIAL PHOTOGRAPH

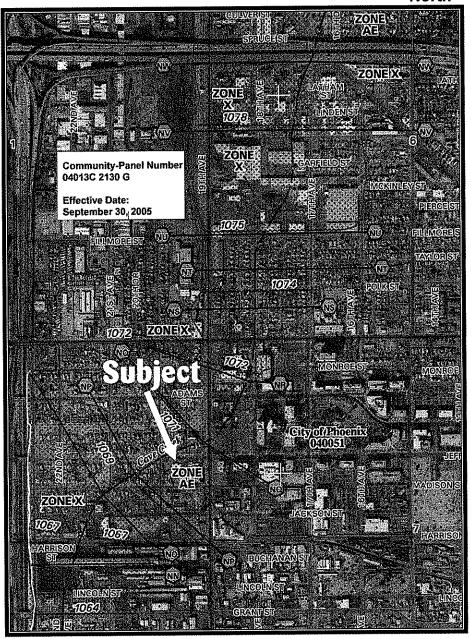


ASSESSOR'S PLAT MAP



FEMA FLOOD ZONE MAP





ARCHEOLOGICAL:

No archeological study was provided for my review. This appraisal assumed no ruins, burials, or artifacts that would result in study/removal costs and construction delays. Should any be found, then at the minimum, any associated costs should be deducted from my opinion of market value.

FRONTAGE/ACCESS:

200.00 feet of accessible frontage on Jefferson Street, a one-way (eastbound) major arterial; crossover access to 20th Avenue and Madison Street, both minor streets

STREET IMPROVEMENTS:

Jefferson Street

Right-of-Way Traffic Lanes

50 feet to CL 3 eastbound

Median Surface Curb/gutter Sidewalk Streetlights Storm Sewer Speed Limit

Asphalt Yes Yes None Yes 35 m.p.h.

None

Curbside Parking

No

TRAFFIC COUNT:

8,500 v.p.d. (2005)

FUTURE ROW REQUIREMENTS: None anticipated

EASEMENTS:

Typical utility easements were assumed

UTILITIES:

Water

City of Phoenix

Electric

APS

Sanitary Sewer

City of Phoenix

Telephone

Qwest Communications

Gas

Southwest Gas

ADJACENT LAND USES:

North

Single-family residences

East South Governmental office building Governmental office building

West

Parking lot

ENCROACHMENTS:

None noted

EXTERNAL INFLUENCES:

None noted

MARKETABILITY:

Physical factors which enhanced marketability included:

- > Appealing governmental mall location
- Publicly-dedicated and maintained access
- No soil or sub-soil problems known
- > Electricity, water and sewer available
- Level topography
- > Sufficient size for many uses

Physical features which limited marketability included:

> None

IMPROVEMENT ANALYSIS

INTRODUCTION: This description of the subject property is based upon

my physical inspection of the subject on August 25, 2009, a review of seventeen pages of building plans drawn in 1967 by George H. Schoneberger, Jr. and

floorplan exhibits provided by the client.

TYPE: One-story, single-tenanted building of modest and

plain Class C design (fair appeal); designed, build-out

and formerly utilized as a day care facility

The location, design and partitioning allows for office conversion to extend the economic life of the improvements given the infeasibility of operating a day care business. A day care business is no longer the

most productive use of the property.

YEAR BUILT: 1968

BUILDING AREA: The building plans are difficult to read, but the architect

indicated a gross building area of 8,500 square feet. However, it is unknown if the plans are "as-built". The client provided a floorplan that appears to more accurately reflect and indicate a gross building area of

9.052 square feet (see next page).

LAND-TO-BUILDING RATIO: 3.31:1

The ratio is typical but much of the land is within

courtyards and play areas, leaving a reduced amount for parking. But as the property has crossover access and parking rights with adjoining land, the ratio would

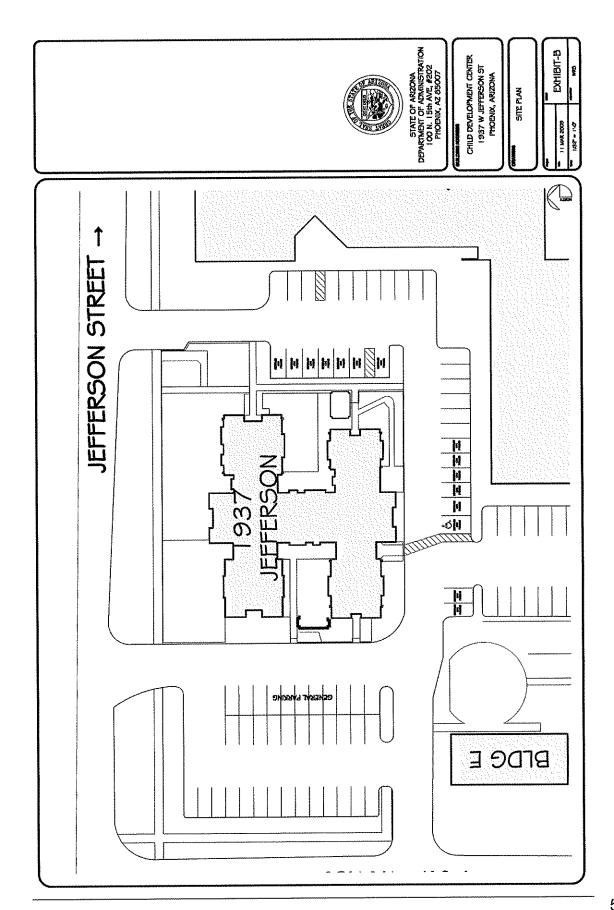
be greater and parking more plentiful.

FLOOR AREA RATIO: 0.30 (typical ratio)

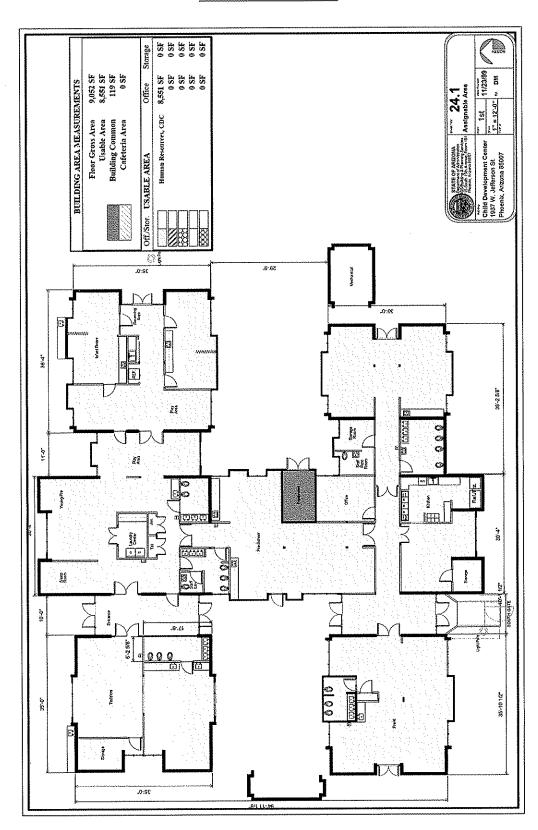
SITE PLAN: Please refer to Aerial Photograph in the Site Analysis

and the Site Plan exhibit on the next page.

INTERIOR LAYOUT: Please refer to two exhibits in this section.



BUILDING PLAN



FOUNDATION:

Reinforced concrete perimeter foundation walls and

interior footings

FLOOR:

Poured concrete

EXTERIOR WALLS:

Frame/stucco and block

ROOF STRUCTURE:

Wood trusses

ROOFING:

Plywood covered in roofing paper, composition shingle

and foam

WINDOWS:

Glass in aluminum and wooden frames

Doors:

Double metal entry doors with safety glass windows,

wooden interior doors, some with safety glass windows

FLOOR COVERINGS:

Vinyl tile, carpet

PARTITIONS:

Studs covered with painted drywall

INSULATION:

Exposed ceiling insulation; insulation in walls

(assumed)

CEILINGS:

Vaulted ceilings in most rooms with flat drywalled 10-

foot ceilings in hallways and some rooms

HEATING & COOLING:

Roof-mounted HVAC units ducted to all areas but the

electrical/mechanical room

PLUMBING AND RESTROOMS:

Copper plumbing (assumed); five restrooms equipped

for small children: two staff restrooms; laundry room;

seven sinks; kitchen plumbing

LIGHTING:

Attached and suspended fluorescent lighting

FIRE SPRINKLERS:

Throughout

UTILITIES:

Electricity, gas and water service which appear to be

suitable for typical day care or office use

METERING:

Single metering

PARKING & PARKING RATIO:

Given the legal description, only seven open spaces (to the east of the building) are within the boundaries of the property for a ratio of 1:293 s.f. of gross building area, which is insufficient for any use of the building. But I have assumed crossover parking which would provide a typical parking ratio of at least 1:300 s.f.

SITE IMPROVEMENTS:

Landscaping

Modest green and gravel landscaping with underground watering system on timers surrounding the building

Fencing

The area in front of the building and the courtyards are enclosed with chain link fencing and electronic locks and padlock security. The fencing encloses the play area and provides nighttime security for the building. However, for office use, the fencing unattractive and super-adequate. It contributes no market value.

Playground Equipment

Playground equipment no longer contributes market value given the infeasibility of operating a day care business on the property.

SIGNAGE:

None except for a small wooden sign on the south side of the building identifying the occupant as "Child Development Center".

ENVIRONMENTAL CONSIDERATIONS:

For the purposes of this analysis, I assume no contamination. No environmental studies of the soil or building materials were provided for my review. Should contamination be found, then as a minimum, the cost of detection, removal, transportation and storage should be deducted from the final value estimate if sold in an "as is" condition.

AMERICANS WITH DISABILITIES ACT:

The subject property was constructed in 1968 according to the Assessor's records and prior to the enactment of the Americans with Disabilities Act (ADA). As such, it is likely that the subject improvements may not with some the requirements of ADA, but the appraiser is not trained to discern all

compliance. The services of an ADA-certified building inspector are recommended should the reader have any questions.

PHYSICAL DEPRECIATION:

Overall, the subject appeared to be in average condition. Little deferred maintenance was noted.

FUNCTIONAL OBSOLESCENCE:

The design of the building is dated but functional for single- or multi-tenancy. For continued child care use, no significant elements of functional obsolescence were noted. But for conversion to office space, the child-sized restrooms, kitchen features and laundry room indicate functional obsolescence that will need to be remodeled for adult use or removed and rebuilt for office use.

EXTERNAL OBSOLESCENCE:

The diminished population and its below-average demographics in the surrounding neighborhood limit the use of the property for continued day care use.

PHYSICAL LIFE & EFFECTIVE AGE:

An building like the subject and the associated improvements typically have a physical life of 75 ± years. The subject improvements were 41 years old as of the date of valuation. Given the average condition of the property, its effective physical age was considered to be 35 years old

REMAINING PHYSICAL LIFE:

40 years

ECONOMIC LIFE & EFFECTIVE AGE:

Economic life is generally shorter than physical life. Depending on investor and user taste, effective economic life can be greater or less than effective physical age. In this case, the economic life of such improvements is 60 years in my opinion.

Considering the functional design, the effective economic age is estimated to be 30 ± years.

REMAINING ECONOMIC LIFE:

30 years with typical maintenance

REAL PROPERTY VS. PERSONAL PROPERTY:

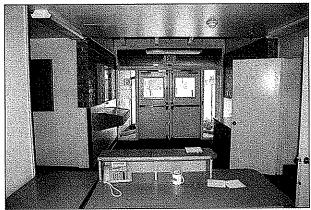
Real property included:

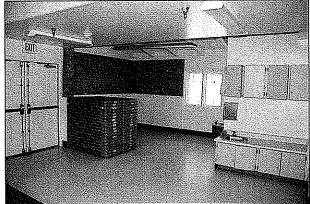
- > Fixed lighting
- > Plumbing fixtures and sinks
- > Heating and cooling units
- ➤ Doors
- > Floor coverings
- > Playground equipment
- ➤ Fencing and gates

Personal property included:

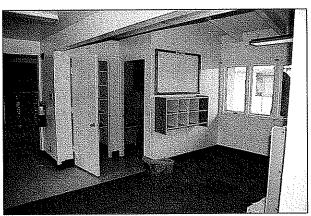
- > Furniture and portable equipment
- > Electronic and telephone equipment
- > Washer, dryer
- ➤ Cribs
- > Refrigerators, freezer, range/oven

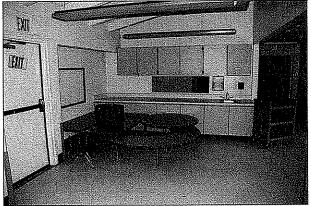
INTERIOR PHOTOGRAPHS (August 25, 2009)



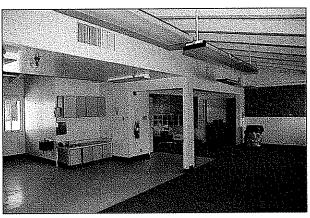


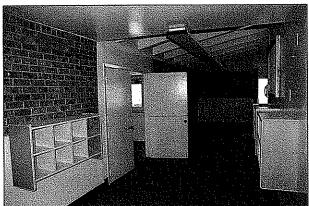
South Lobby and Typical Build-out



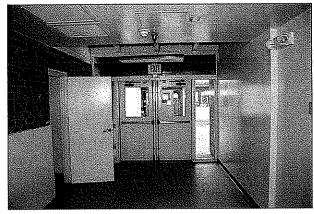


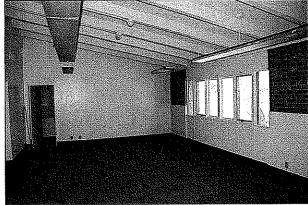
Typical Build-out



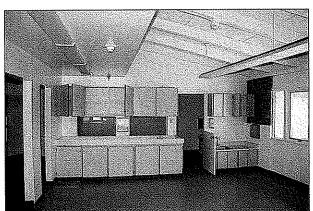


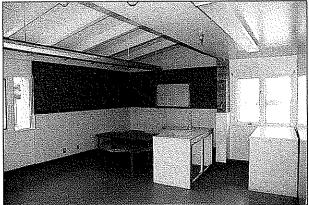
Typical Build-out



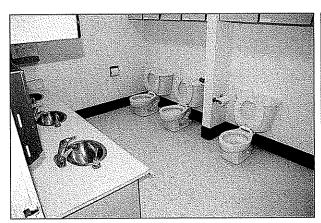


Secondary Entrance/Exit and Typical Build-out



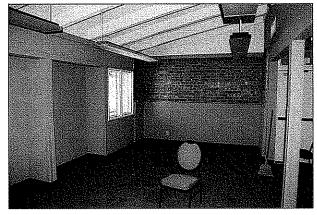


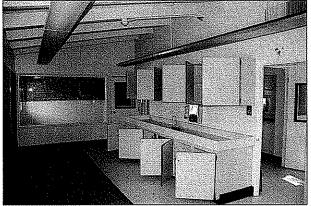
Typical Build-out



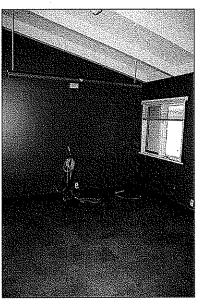


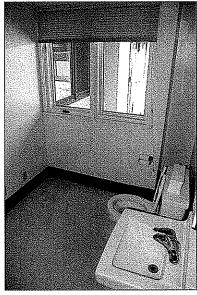
Typical Child-sized Restroom





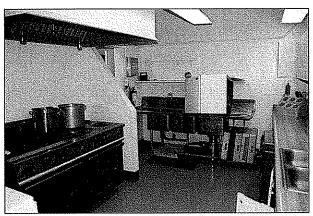
Typical Build-out

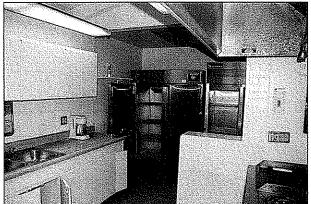




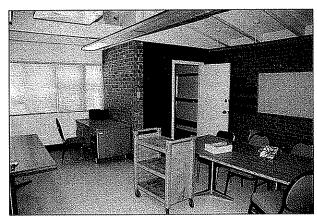


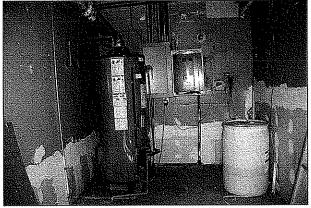
Typical Build-out, Staff Restroom and Hallway



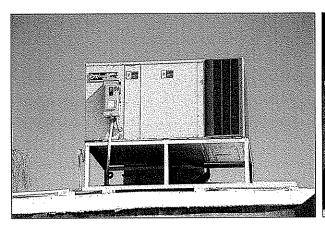


Kitchen





Typical Build-out and Mechanical Room





Typical Roof-mounted HVAC Unit and West Courtyard

ZONING AND LEGAL RESTRICTIONS ANALYSIS

General Plan

The current Phoenix General Plan designated the subject property for "Public/Quasi Public" development. However, the subject has vested zoning that allows any market-oriented use.

Zoning Classification

The subject was zoned R-3, Multiple-Family Residential by Phoenix. The purpose of the zoning district is to provide for alternative living styles including rental, condominiums and single ownership of land with multiple units thereon or single or attached townhomes.

	R-3 Development Option						
Standards	(a) Subdivision (3)	(b) Average Lot	(c) Planned Residential Development				
Minimum lot dimensions (width and depth) *3	60' width, 94' depth *3	40' width, 50' depth *3	None				
Dwelling unit density (units/gross acre)	14.5	14.5	15.23; 17.40 with bonus				
Perimeter standards (2)	None	20' front, 15' rear, 10' side	20' adjacent to a public street; this area is to be in common ownership unless lots front on the perimeter public street; 15' adjacent to property line *2				
Building setbacks	25' front, 15' rear, 10' and 3' side	10' front, 30' front plus rear	10' front				
Maximum height	2 stories and 30'*	2 stories and 30'*	2 stories or 30' for first 150'; 1' in 5' increase to 48' high, 4-story maximum*				
Lot coverage	45%	45%	45%				
Common areas	None	None	Minimum 5% of gross area (3)				
Allowed uses	Single-family attached and multifamily *5	Single-family attached and multifamily *5	Single-family attached and multifamily *5				
Required review Subdivision to create 4 or more lots		Subdivision with building setbacks	Development review per Section 507 *5				
Street standards	Public street required	Public street	Public street or street accessway				

	R-3 Development Option	
Standards	Conventional	Planned Residential Development
Minimum lot width (in the event of horizontal property regimes, "lot" shall refer to the width of the structure and exclusive use area) *7	55' minimum	45' minimum (unless approved by either the design advisor or the Single -Family Architectural Appeals Board for demonstrating enhanced architecture that minimizes the impact of the garage (see Section 507 Tab A.2.12.1 B(2)(b) [sic])) *7
Minimum lot depth	None, except 110' adjacent to freeway or arterial	None, except 110' adjacent to freeway or arterial
Dwelling unit density (units/gross acre)	5.0	6.5; 12 with bonus
Minimum perimeter building setbacks	Front: 15'; Rear: 15' (1-story), 20' (2-story); Side: 10' (1-story), 15' (2-story)	Street (front, rear or side): 15' (in addition to landscape setback); Property line (rear): 15' (1-story), 20' (2-story); Property line (side): 10' (1-story), 15' (2-story)
Common landscaped setback adjacent to perimeter streets	None	15' average, 10' minimum (Does not apply to lots fronting onto perimeter streets)
Minimum interior building setbacks	Front: 10'; rear: 10'; combined front and rear: 35', street side: 10'; sides: 13' total (3' minimum, unless 0')	Front: 10'; rear: none (established by Building Code); street side: 10'; sides: none (established by Building Code)
Minimum building separation	10'	None
Minimum garage setback	18' from back of sidewalk for front-loaded garages, 10' from property line for side- loaded garages	18' from back of sidewalk for front- loaded garages, 10' from property line for side-loaded garages
Maximum garage width	For lots <60": 2 car widths, for lots >=60' to 70": 3 car widths, for lots >70": no maximum *7	For lots <60': 2 car widths, for lots >=60' to 70': 3 car widths, for lots >70': no maximum *7
Maximum height	2 stories and 30'	2 stories and 30' (except that 3 stories not exceeding 30' are permitted when approved by the design advisor for demonstrating enhanced architecture) *7
Lot coverage	Primary structure, not including attached shade structures: 40% Total: 50%	Primary structure, not including attached shade structures: 40% Total: 50%
Common areas	None	Minimum 5% of gross area
Allowed uses	Single-family detached	Single-family detached
Required review	Development review per Section 507, and subdivision to create 4 or more lots	Development review per Section 507, and subdivision to create 4 or more lots
Street standards	Public street, or private street built to City standards with a homeowners' association established for maintenance	Public street or private accessway (1)
On-lot and common retention	Common retention required for lots less than 8,000 sq. ft. per grading and drainage ordinance requirements	Common retention required for lots less than 8,000 sq. ft. per grading and drainage ordinance requirements
Landscape standards		Perimeter common: trees spaced a maximum of 20 to 30 feet on center (based on species) or in equivalent groupings, and 5 shrubs per tree.

Rezoning Potential

The existing zoning provides for a narrow range of residential uses. Given the surrounding uses and the trends in the neighborhood, a special use permit, a variance or zoning change to allow office development would be likely.

Private Restrictions

No adverse deed restrictions or active CC&Rs were noted in a review of the title report.

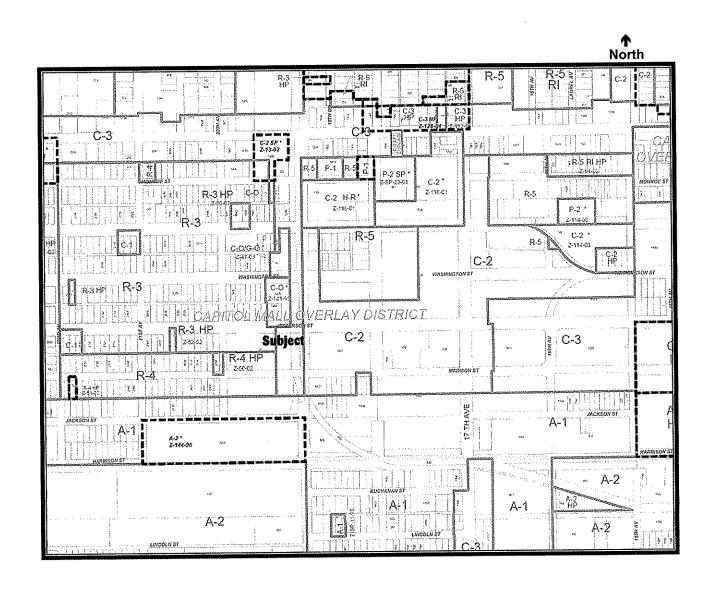
Off-Title Information

At times, a property can be restricted by agreements with adjoining property owners, by customary use or by adverse possession. In this case, there appeared to have been none.

Existing Use

Neighborhood trends support the current zoning and the subject's improvements are among those uses permitted by current zoning restrictions. The existing improvements constitute a legal use in the current zoning code. Because building codes have changed since the improvements were constructed, individual construction details, setbacks, retention and landscaping requirements may not adhere to current codes making the improvements a legal non-conforming use. However, such status, if true, does not adversely affect its market value. The improvements can continue to be used, as is, without the need to meet current standards, as long as the basic use is not changed.

ZONING MAP



REAL ESTATE TAX AND ASSESSMENT ANALYSIS

Introduction

Most real property in Maricopa County is assessed by the Maricopa County Assessor and the tax liability is collected by the Treasurer. Assessed values are typically established in November or December of each year, with tax rates in the following September. Taxes are paid in equal bi-annual installments, due October 1 of the current tax year and March 1 of the following year.

Assessment and Full Cash Value

The Assessor identified the subject as part of parcel number 109-49-072. The subject was classified as "Vacant Land" and assessed at a ratio of 16% in 2009. For 2009 the Assessor's estimate of full cash value included two other buildings. As such, no further analysis was possible for the subject property.

Real Estate Tax Liability

Because the subject is government-owned, it is tax-exempt.

Delinquent Tax Liability

None

Special Assessment

No special assessment was reported.

HIGHEST AND BEST USE ANALYSIS

Highest and best use reflects a basic assumption about real estate market behavior--that the price a buyer will pay for a property is based on his or her conclusions about the most profitable use of the land or property. The determination of a property's highest and best use may or may not conform to the existing use. The determination of highest and best use must be based upon careful consideration of prevailing market conditions, trends affecting market participation and change, and the existing use of the subject property.

Highest and best use may be defined as:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. ⁴

Because the use of land can be limited by the presence of improvements, highest and best use is determined separately for the land as though vacant and available to be put to its highest and best use, and then for the property as it is currently improved.

The first determination reflects the fact that land value is derived from potential land use. Land has limited value or no value unless there is a present or anticipated use for it. The amount of value depends on the nature of the land's anticipated use according to the concept of surplus productivity. Among all reasonable alternative uses, the use that yields the highest present value, after payments are made for labor, capital, and coordination, is generally regarded as the highest and best use of the land as though vacant.

The highest and best use of a property as improved refers to the optimal uses that could be made of the property including all existing structures. The implication is that the existing improvements should be retained "as is" so long as they continue to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing them and the construction of the new improvement.

Appraisal Institute, <u>The Dictionary of Real Estate Appraisal</u>, Fourth Edition, (Chicago, Illinois: Appraisal Institute, 2002), page 135.

The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be:

- 1. Physically possible,
- 2. Legally permissible,
- 3. Financially feasible, and
- 4. Maximally productive.

These four criteria are considered in reference to the subject property in the following analysis.

Highest and Best Use, As Vacant

Physically Possible

The subject was 30,000 square feet or 0.689 acre of land located at 1937 West Jefferson Street, Phoenix, Arizona. Physical factors which enhanced marketability included:

- > Appealing governmental mall location
- > Publicly-dedicated and maintained access
- No soil or sub-soil problems known
- > Electricity, water and sewer available
- Level topography
- > Sufficient size for many uses

Physical features which limited marketability included:

➤ None

The subject's location and trends of development in the area indicate that the subject was ultimately most suitable for a professional office development. Enhancing the size of the subject was the crossover access and parking rights with adjoining land that is a special limiting condition of the appraisal.

Legally Permissible

The current Phoenix General Plan designated the subject property for "Public/Quasi Public" development. However, the subject has vested zoning that allows any market-oriented use.

The subject was zoned R-3, Multiple-Family Residential by Phoenix. The purpose of the zoning district is to provide for alternative living styles including rental, condominiums and single ownership of land with multiple units thereon or single or attached townhomes. The existing zoning provides for a narrow range of residential uses. Given the surrounding uses and the trends in the neighborhood, a special use permit, a variance or zoning change to allow office development would be likely.

<u>Private Restrictions</u> - No adverse deed restrictions or active CC&Rs were assumed.

Off-Title Information - At times, a property can be restricted by informal agreements with adjoining property owners, by customary use or by adverse possession. In this case, there appeared to have been none.

Financially Feasible

Given physical and legal restrictions, as vacant, the most likely use of the subject land would ultimately be an office development. Other uses such as municipal uses, houses of worship and other specialty uses may also be possible but such uses are occasional and infrequent compared to typical uses for land. Besides, given the relatively small size of the subject and is location in an area of light population density and depressed demographics, many market-oriented uses are precluded. The subject, its zoning and location, would be well adapted for municipal office-related use. The feasibility of professional office development is discussed below. The feasibility of municipal office development and use is not studied or tracked.

Office Development - In terms of attracting enough demand to seriously consider initiating new office development, one must first consider demand in the current office market—both metropolitan-wide and local.

The Phoenix Office market ended 2nd Quarter 2009 with a vacancy rate of 20.5%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (707,758) square feet in the second quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,693,250 square feet. Rental rates ended the second quarter at \$24.23 per square foot, per year, full service, a decrease over the previous quarter. A total of 12 buildings delivered to the market in the quarter totaling 768,896 square feet, with 2,494,201 square feet still under construction at the end of the quarter. The chart below summarizes the Phoenix metropolitan area market. The subject is in the West Phoenix sub-market.

TOTAL OFFICE MARKET STATISTICS

Mid-Year 2009

	Existi	ng Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area	426	13,726,475	2,065,633	2,366,564	17.2%	(196,521)	113,376	5,250	\$21.60
Central Corridor	557	21,390,038	3,086,735	3,288,888	15.4%	(459,492)	0	1,045,000	\$25.45
East Phoenix	831	19,403,494	3,670,531	3,914,617	20.2%	(341,510)	0	484,365	\$25.33
East Valley	1.962	25,080,473	5,948,576	6,055,701	24.1%	(86,847)	581,073	358,500	\$24.08
Northwest Phoenix	1.171	23,086,116	4,227,580	4,390,971	19.0%	(61,192)	76,921	0	\$22.07
Paradise Valley	457	8,335,217	1,454,691	1,562,577	18.7%	(73,717)	10,356	0	\$23.94
Scottsdale	1,442	29,809,200	6,508,603	7,056,584	23.7%	(223,027)	429,646	466,500	\$25.28
West Phoenix	795	9,775,163	2,276,934	2,296,631	23.5%	(29,550)	61,055	134,586	\$24.21
Totale	7.641	150,606,176	29.239.283	30.932.533	20.5%	(1,471,856)	1,272,427	2,494,201	\$24.23

Source: CoSter Property®

Net absorption for the Phoenix office market was negative (707,758) square feet in the 2nd Quarter 2009 which compares to negative (764,098) square feet in 1st Quarter 2009, negative (739,944) square feet in 4th Quarter 2008, and negative (155,055) square feet in 3rd Quarter 2008.

The Class A office market recorded net absorption of positive 68,055 square feet in 2nd Quarter 2009, compared to negative (176,077) square feet in 1st Quarter 2009, negative (94,598) in 4th Quarter 2008, and negative (247,333) in 3rd Quarter 2008.

The Class B office market recorded net absorption of negative (595,180) square feet in 2nd Quarter 2009, compared to negative (451,255) square feet in 1st Quarter 2009, negative (575,424) in 4th Quarter 2008, and positive 147,403 in 3rd Quarter 2008.

The Class C office market recorded net absorption of negative (180,633) square feet in 2nd Quarter 2009 compared to negative (136,766) square feet in 1st Quarter 2009, negative (69,922) in 4th Quarter 2008, and negative (55,125) in 3rd Quarter 2008.

Net absorption for Phoenix's central business district was negative (267,223) square feet in 2nd Quarter 2009. That compares to negative (192,269) square feet in 1st Quarter 2009, positive 2,303 in 4th Quarter 2008, and negative (144) in 3rd Quarter 2008. Net absorption for the suburban markets was negative (440,535) square feet in 2nd Quarter 2009, which compares to negative (571,829) square feet in 1st Quarter 2009, negative (742,247) in 4th Quarter 2008, and negative (154,911) in 3rd Quarter 2008.

The **office vacancy rate** in the Phoenix market area increased to 20.5% at the end of 2nd Quarter 2009. The vacancy rate was 19.7% at the end of 1st Quarter 2009, 18.9% at the end of 4th Quarter 2008, and 17.3% at the end of 3rd Quarter 2008.

Class A projects reported a vacancy rate of 23.6% at the end of 2nd Quarter 2009, 23.1% at the end of 1st Quarter 2009, 22.3% at the end of 4th Quarter 2008, and 19.2% at the end of 3rd Quarter 2008.

Class B projects reported a vacancy rate of 21.5% at the end of 2nd Quarter 2009, 20.4% at the end of 1st Quarter 2009, 19.5% at the end of 4th Quarter 2008, and 18.4% at the end of 3rd Quarter 2008.

Class C projects reported a vacancy rate of 11.3% at the end of 2nd Quarter 2009, 10.5% at the end of 1st Quarter 2009, 9.9% at the end of 4th Quarter 2008, and 9.7% at the end of 3rd Quarter 2008.

The overall vacancy rate in Phoenix's central business district at the end of 2nd Quarter 2009 increased to 15.4%. The vacancy rate was 14.2% at the end of 1st Quarter 2009, 13.3% at the end of 4th Quarter 2008, and 13.3% at the end of 3rd Quarter 2008. The vacancy rate in the suburban markets increased to 21.4% in 2nd Quarter 2009. The vacancy rate was 20.6% at the end of 1st Quarter 2009, 19.8% at the end of 4th Quarter 2008, and 17.9% at the end of 3rd Quarter 2008.

The average quoted **asking rental rate** for available office space, all classes, was \$24.23 per square foot per year, full service, at the end of 2nd Quarter 2009 in the Phoenix market area. This represented a 3.2% decrease in quoted rental rates from the end of 1st Quarter 2009, when rents were reported at \$25.03 per square foot. The average quoted rate within the Class A sector was \$27.37 at the end of 2nd Quarter 2009, while Class B rates stood at \$23.13, and Class C rates at \$17.75. At the end of 1st Quarter 2009, Class A rates were \$28.44 per square foot, Class B rates were \$23.75, and Class C rates were \$18.20. The average quoted asking rental rate in Phoenix's CBD was \$25.45 at the end of 2nd Quarter 2009, and \$24.05 in the suburban markets. In 1st Quarter 2009, quoted rates were \$26.17 in the CBD and \$24.87 in the suburbs.

For Class C space like the subject, the following statistics were provided:

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Mid-Year 2009

	Existing Inventory		Vасалсу			YTD Net	YTD	Under	Quoted
Market	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
44th Street Corridor	69	758,224	191,765	191,765	25.3%	(4,133)	ð	0	\$20.93
Airport Area	43	562,752	52,621	52,621	9,4%	(6,134)	0	0	\$16.34
Arrowhead	80	715,531	83,978	83,978	11.7%	(3,180)	0	0	\$20.07
Camelback Corridor	102	865,250	79,032	79,032	9.1%	(5,573)	0 1	0	\$17.65
Central Scottsdale	81	532,810	27,736	27,736	5.2%	3,985	0	0	\$21.12
Chandler	73	393,735	44,863	44,863	11.4%	1,989	0	0	\$19.13
Deer Valley/Airport	47	420,671	27,210	27,210	6.5%	1,301	0	0	\$15,18
Downtown North	236	1,703,876	202,249	202,249	11.9%	(37,851)	0	0	\$18.16
Downtown South	126	1,134,178	118,213	133,683	11.8%	(52,257)	0	0	\$17.92
Glendale	73	523,829	39,211	39,211	7.5%	(3,296)	0	0	\$19.32
Loop 303/Surprise	23	190,823	6,442	6,442	3.4%	(3,942)	0	0	\$23.70
Mesa Downtown	156	665,567	77,289	77,289	11.6%	22,151	0	0	\$16.37
Mesa East	197	1,281,839	150,947	150,947	11.8%	(7,463)	0	0	\$14.39
Midtown/Central Phoenix	332	1,969,865	249,902	251,902	12.8%	(84,835)	0	0	\$16.59
Northwest Phoenix	384	2,425,073	265,237	268,455	11.1%	(65,084)	0	0	\$15.46
Paradise Valley	102	855,382	59,270	59,270	6.9%	(482)	0	0	\$18.93
Piestewa Peak Corridor	110	654,740	46,664	46,664	7.1%	(19,691)	0	0	\$16.93
Scottsdale Airpark	51	449,319	84,817	89,097	19.8%	9,519	0	0	\$21.76
Scottsdale South	360	2,039,127	243,754	246,973	12.1%	(29,434)	0	0	\$21.22
South Tempe/Ahwatukee	24	212,256	17,172	47,172	22.2%	2,325	0	0	\$16.89
Southwest Phoenix	288	1,703,504	194,876	194,876	11.4%	5,782	0	0	\$14.64
Superstition Corridor	70	655,876	64,574	65,674	10.0%	(20,624)	0	0	\$15,83
Tempe	193	1,251,162	125,338	125,338	10,0%	(11,392)	D	0	\$18.18
West I-10	35	405,202	10,465	10,465	2.6%	(9,080)	0	0	\$19.15
Williams Gateway/Loop 202	2	11,667	5,250	5,250	45.0%	0	0	0	\$0.00
Totals	3,257	22,382,258	2,468,875	2,528,162	11.3%	(317,399)	0	0	\$17.75

Source: CoStar Property®

Given the above absorption, occupancy and rental data, and considering the continuing downward trend in occupancy and the overall economic environment, no additional office development appears to be financially feasible anywhere within the Phoenix metropolitan area submarket at this time.

Maximally Productive

The subject site has good linkages to an employable population base and transportation corridors. But the depressed office market and its location southwest of downtown and the much more appealing central Phoenix area greatly limit its development potential. At this time, my study of demand and supply in the various real estate market segments indicated that no new development is feasible without committed tenants or end users. Financing is generally unavailable unless the overall risk is negligible. Although

development does not appear feasible at this time, the subject is a somewhat attractive site to an investor given its location and setting in the governmental mall. Thus, it has appeal to an investor seeking to hold the land for future development in conjunction with adjoining land or for profit from appreciation and resale at a profit.

Conclusion, As Vacant

Therefore, after considering the physical, legal and financial limitations of the site, it was my opinion that the highest and best use of the subject property would be for speculative investment purposes anticipating appreciation and profit upon future development or resale at a profit.

Highest and Best Use, As Improved

Improvements

The land was improved with a one-story, 9,052 square foot single-tenanted day care facility built in 1968, as the Jane Wayland Child Development Center. It has had the licensed potential for an enrollment of 166 children but the state had limited the number at 130. When last in operation, the enrollment was 90 children aged from 6 weeks to 6 years. The center was operated year-round from 6:30 to 6:30, Monday through Friday, excluding state holidays. The design is now dated and its quality places it in a Class C category. It is in average condition and has a remaining economic life. However, the feasibility of continued use as a day care facility is questionable and unlikely.

Legally Permissible

Neighborhood trends support the current zoning and the subject's improvements are among those uses permitted by current zoning restrictions. The existing improvements constitute a legal use in the current zoning code. Because building codes have changed since the improvements were constructed, individual construction details, setbacks, retention and landscaping requirements may not adhere to current codes making the improvements a legal non-conforming use. However, such status, if true, does not adversely affect its market value. The improvements can continue to be used, as is, without the need to meet current standards, as long as the basic use is not changed.

Financially Feasible

The theory of highest and best use says that if the market value of the fee simple interest in the land, less the cost of demolition, is greater than the property as improved, then the improvements no longer represent the highest and best use of the land.

The subject improvements were in average condition but they were modest in their design and appeal. Although the site could be redeveloped, market conditions do not support redevelopment and barring any unprecedented changes in land value, the improvements were expected to remain the use of the land for their remaining economic life.

<u>Day Care and Trends Affecting the Industry</u> – The following information was gathered from the Internet from various sources—sources which I have documented in my workfile.

Obtaining affordable, quality child day care, especially for children under age 5, is a major concern for many parents, particularly in recent years with the rise in families with two working parents. As the need for child day care has increased in the last decade, the child day care services industry began to fill the need of non-relative child care. Approximately one-half of the children in the United States today are cared for by someone other than an immediate family member during some portion of each day. In two-thirds of two-parent homes, both parents work, providing a large and ever growing consumer base for the day-care industry. In addition, 12 million children, more than 20% of the children in the United States, live with single parents who need child care in order to work.

Child day care needs are met in different ways. Care in a child's home, care in an organized child care center, and care in a provider's home—known as family child care—are all common arrangements for preschool-aged children. Older children also may receive child day care services when they are not in school, generally through before- and after-school programs or private summer school programs. With the increasing number of households in which both parents work full time, this industry has been one of the fastest growing in the U.S. economy.

The industry consists of establishments that provide paid care for infants, toddlers, preschool children, or older children in before- and after-school programs. Two main types of child care make up the child day care services industry: center-based care and family child care. Formal child day care centers include preschools, child care centers, and Head Start centers. Family child care providers care for children in their home for a fee and are the majority of self-employed workers in this industry. This does not include persons who provide unpaid care in their homes for the children of relatives or friends or occasional babysitters. Also, child care workers who work in the child's home, such as nannies, are included primarily in the private household industry, not this industry.

Married women with children have been the fastest growing segment of the labor force since 1972. Estimates show that 67% of all new jobs from 1988 to 1995 will be held by women, 80% of whom will have children at some point during their career. A national survey conducted in 1982 indicates that 27% of mothers of pre-school children say they would seek a job if they could find adequate child care, and 21% of part-time working mothers claimed they would seek more hours of work if given better child care.

Employers and co-workers often feel the impact of inadequate or unreliable day care. Sometimes parents are preoccupied at work about their children's care. They may arrive late and leave early to meet their children's schedules. Absenteeism may occur or time may be lost in making phone calls to check on children. Both mothers and fathers have been known to reject promotions because of conflict with their parental obligations. Coworkers may be affected by lost productivity and may feel resentment if called upon to pick up the slack.

Some employers are taking steps to reduce the struggle between career and parental obligations by offering flexible work schedules and parental leave, both for mothers and fathers. Employers are also helping employees find options for quality child care, by offering referral services to employees seeking day care. This usually provides a starting point for the parents by giving them a better idea of what is available and allows them to talk with other parents who have had some experience with a particular caregiver. Some employers are also providing financial assistance by arranging for parents to pay their child-care expenses with pre-tax dollars or offering child-care subsidies as part of their benefit package.

A less common practice that has gained support is on-site child care, a day-care facility sponsored by the company and located on its property. Since on-site care can be very expensive, employers normally do not underwrite the entire cost. Usually, parents have part of the expense deducted from their paychecks or elect a flexible benefit option. Depending on the amount of subsidy provided by the employer, rates for on-site care can be below that of other quality day-care centers. However, most companies that have some type of child-care facility or assistance program believe the benefits, public relations, increased employee dependability and improved recruiting and retention efforts far outweigh the costs to them. With the additional advantage of proximity, parents do not have to go out of their way to drop their children off before work and are able to visit them during breaks and the lunch hour. Because of the growing demand in the day-care industry, many opportunities exist for potential small business owners. Parents now place a high value on quality child care and are willing to search for the best care providers.

For-profit businesses are only one of the several different types of day care that now exist with each type used by different groups within the day-care market. Many of the small child day-care businesses are home-based, or operated out of a privately-owned home. By contrast, center-based operations tend to be larger in size and include franchise, on-site company sponsored, cooperative and individually owned centers. Currently, 15% of employed mothers use center-based day care for their preschool children as their primary source of child care. An additional 13% of working mothers use center-based care as their secondary source and use a baby-sitter or family member as their first choice, especially in areas with below-average demographics. Surveys show that more affluent, better educated families rely more on paid care and center-based care than lower income families, who rely primarily on relatives.

Child-care needs have recently attracted national attention with the U.S. Congress debating whether to establish a national program and regulatory standards. However, individual states already regulate child-care providers. State laws are extremely diverse, ranging from strict licensing requirements to almost no regulation at all. Each state has its own laws regarding zoning ordinances and insurance requirements, as well as regulations for the actual facility, such as capacity limits, fire alarms, fenced play areas, number of exits and health standards for food preparation areas. In addition, there are usually regulations regarding the minimal number of staff required for specific levels of enrollment.

Current federal proposals emphasize the cost and availability of child care, as well as setting national health and safety standards. Various proposals and programs (ever changing) authorize subsidies and tax credits to low-income parents, issue grants to public, private and family day-care centers and provide an insurance pool to help lower the cost of liability coverage. These plans also include revolving loan funds to improve child-care facilities. In addition, funds are provided to improve the training of child-care workers and establish minimum federal standards for child-care providers.

The federal government already provides some assistance to low-income families through Title XX of the Social Security Act, passed in 1974. Families with an income below 115% of their state's median income are eligible for benefits, and families with an income above 80% of their state's median income are required to pay some part of the expenses based on their income level.

However, government programs and assistance will wane with changes in the economy and reduced tax collection. The closure of the subject facility was caused, in part, by the lack of state subsidy.

Head Start is another federally funded program aimed at low-income children. The purpose of this program is to prepare children from very low-income families for school by focusing on reading and positive social interaction. Some perceived that low-income families were unable to provide their children with the books, games and activities that middle-class children enjoyed. An unforeseen by-product of this program is free child care to parents who enroll their children. The federal government continues to fund Head Start.

In addition, a tax credit is available that reduces families' federal income taxes to help compensate for child-care expenses. Unfortunately, few poverty-level households are actually able to benefit from the entire credit because they cannot receive an amount larger than their original tax liability. Therefore, the prime beneficiaries from the credit are middle- to upper-income families.

Day-care providers need to stay informed of federal programs and proposals because of the direct consequences on new and existing day-care businesses. For example, new financing opportunities might be created or a major shift in public attitudes towards the provision of quality child care might occur. The long term decline in birth rates in the US is expected to continue, negatively impacting the outlook for this industry. However, labor force participation rates of women aged over 40 years have increased, resulting in parents opting for childcare services due to unavailability of care from relatives. Marginal decreases in unemployment could have a moderately positive impact on labor force participation, increasing demand for this industry's services.

The Subject Property – The subject property was developed in 1968 as the Jane Wayland Child Development Center. The Department of Administration apparently took title to the property in 1978 after paying a nominal amount. Apparently, the operation has been subsidized from the beginning. Recently, the aged facility was closed given the lack of subsidy from the state and the inability of the operator, La Petite, to operate the facility without assistance. The center was closed in April, 2009. The state issued a request for proposal (EPS09055) to attempt to attract an operator. Although a number of operators looked into the potential to operate the facility, none applied. Part of the problem was that the RFP required discounted rates to state employees, but without state subsidy.

The RFP required the operator to pay rent of \$5,843 per month, or \$8.00 per square foot per year, triple net, based on the building area (8,765 s.f.) as stated in the RFP. On a modified gross basis, the rent would be in the range from \$11.00 to \$11.50 per square foot by adding the costs of insurance, taxes, major maintenance and other costs.

La Petite is a national operator of day care centers. Despite their expertise, they could not sustain the continued and profitable operation of the day care facility. Indications are that the center would have to be donated rent-free in order to allow some level of economic feasibility. Following La Petite's departure, no other operator saw financial feasibility in the operation of a day care center at the property.

As an independent day care facility, the subject is infeasible given the surrounding neighborhood with its light population density and depressed demographics. Much of the land to the south is industrially-oriented. The land to the east is governmental mall and the central business district of downtown Phoenix. Much of the population cannot afford day care service at prices that allow the feasibility of the subject property as a day care facility. Many children cared for during the day are placed with relatives, friends or secondary day care operations without the quality, condition, and services that a facility like the subject, or better, can offer.

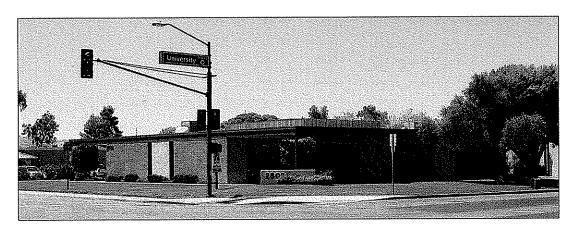
Maximally Productive

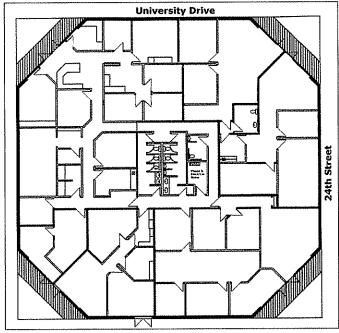
As the value of the subject property, as improved, exceeded the value of the land as vacant (less demolition costs) by my appraisal, the existing improvements reflected a feasible and productive use of the land. The improvements were expected to remain a popular use of the land for the duration of its remaining economic life. However, the life of the property as a day care center has apparently ended. The property would be better served converted to general purpose office space. As such, it would yield consistent

annual net income that does not have to rely on the difficult and costly operation (and inherent liability) of a day care business. Converted to an office use would allow for both private and government use. Although both segments of the office space market are depressed, the market will rebound in a few years.

The cost to convert does not appear to be infeasible. The subject building has a relatively open and functional floorplan for office use. Given today's office build-out, it lends itself well to bullpen and cubicle space as well as private offices, conference areas break room/kitchen, restrooms and storage. The design of the building with wings, multiple entrances and exits easily allows multi-tenancy. However, it could well serve a single tenant with at the least cost of conversion.

For example, a single story office building currently for sale and for lease at 2602 South 24th Street in Phoenix (APN 115-32-001S), is 9,247 square feet and was built in 1972. The building compares well with the subject, physically. It sits on a 35,486 square foot site. A photo and a floorplan are shown below:





The leasing and selling agent, Mr. D.J. Bean, Cutler Commercial, 602-386-1234, indicated that the floorplan is overly divided into a maze of rooms and corridors. The odd and super-adequate floorplan has limited the building's marketability. In order to make the building more attractive to the market, the owner is going to "thin" the partitioning and create open areas for bullpen and cubicle use. Mr. Bean indicated that the landlord will spend \$40,000 or \$4.33 per square foot ($$40,000 \div 9,247 \text{ s.f.}$). The cost will fund demolition, removal, new drywall, ceilings, electrical, floor coverings and minor plumbing work.

The subject does not appear to need as much partitioning work, but some of the child-size restrooms will have to be removed and the other retrofitted for adult use. Other work will entail removing some of the sinks, laundry connections and super-adequate kitchen features. The exterior will require the removal of excessive fencing and the playground equipment.

In all, an expense of \$50,000 to \$70,000 appears necessary for office conversion (\$5.50 to \$7.75/s.f., rd.). A cost in the upper end of the range is likely. Of course more could be spent on enhancing the exterior, entries, computer and Internet wiring and interior embellishments. But given the age and location of the building, the prudent investor would be careful not to overspend.

Conclusion, As Improved

Despite existing forms of obsolescence and depreciation, the existing improvements represented the highest and best use of the land, as improved, but assuming conversion to office use.

VALUATION PROCESS

The use of the Cost, Sales Comparison, and Income Approaches to Value depend on the type of property, the use of the appraisal, and the quality and quantity of data available for analysis. They are defined as follows:

Cost Approach: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost; and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised. ⁵

Sales Comparison Approach: A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales are available. ⁶

Income Approach: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate. ⁷

Reconciliation: The last phase of any valuation assignment in which two or more value indications derived from market data are resolved into a final value opinion, which may be either a final range of value or a single point estimate. ⁸

All three approaches to value are based upon the Principle of Substitution. This is a valuation principle that states a prudent purchaser would pay no more for real property than the cost of acquiring an equally desirable substitute on the open market. The principle presumes that the purchaser will consider the alternatives available to him or her, that the buyer will act rationally and prudently on the basis of the information available about these alternatives, and that time is not a significant factor. Substitution may assume the form of the purchase of an existing property with the same utility and income potential or the acquisition of vacant land and the construction of a structure upon the land having the same general utility as the subject property.

Appraisal Institute, <u>The Dictionary of Real Estate Appraisal</u>, Fourth Edition, (Chicago, Illinois: Appraisal Institute, 2002), page 67.

⁶ lbid., page 255.

⁷ Ibid., page 143.

⁸ Ibid., page 236.

Applied Method

Both the Sales Comparison Approach and the Income Approach were applicable and were utilized in the estimation of the subject's market value. As an office property is most commonly sold on the basis of price per square foot of gross area and on its income characteristics, the Cost Approach was not relied upon by the typical buyer. Thus, the approach was not included.

SALES COMPARISON APPROACH

Theory

This approach calls for the typical buyer or appraiser to compare the subject property with similar properties which have either recently sold or are currently listed for sale. The comparables are compared and adjusted to the subject on the basis of physical, legal, and economic factors that affect value. Superior differences in the comparables indicate downward adjustments to their sales prices. Inferior differences result in upward adjustments to their sales prices. After adjustment, the range of adjusted prices indicates a range of market value for the subject. The specific unit of comparison used in this approach was "package price" or the sales price of the property divided by gross building area. Both land and improvements are accounted for in package price.

This approach gives an excellent indication of current market prices when sales data are plentiful and easily confirmed. Recent sales and listings show where the market has been and where it may be going. The data reveals the trends not only in price, but in the trends of investment and development as well as current seller and buyer behavior.

Data

My search of the market was conducted by reviewing sales compiled by the county recorder's office and obtaining sales in escrow and listings from real estate agents, brokers and other market participants. Of numerous sales and listings discovered, the following comparables were documented and discussed which represented the most current and comparable data for the estimation of market value. Other comparable sales and listings, in addition to those documented and analyzed here, were also considered and influenced my opinion of value as part of my workfile.

In my search for data, I found additional sales and listings from other market segments in the neighborhood and competing areas. Even though some of these sales were current, they did not represent substitution for the subject. In other words, the typical buyer would not have considered them to be substitutes for the subject or indicative of the subject's market value as they did not share the subject's highest and best use.

My data were arranged from newest to oldest to emphasize those sales which best reflect current market conditions. If listings were used, they were presented last. Please note that "Date of Sale" as shown in the documentation of the comparables on the following pages, reflects the date the price was agreed upon by buyer and seller, the contract signed and placed in escrow. Even though the sales closed later, sometimes months or even years afterward, the date of sale is important to understand market conditions and for judging and adjusting for appreciation and depreciation.

Type:

Office Building

Location:

1700 North 7th Street, Phoenix, Arizona

Sale Data

Grantor:

Coronado & 7th Street Partnership

Grantee:

MFC Holding Company

Date of Sale: Recorded Date: February, 2009 April 9, 2009

Instrument:

Special Warranty Deed

Instrument No.:

09-0314201

Sales Price:

\$1,629,825

Terms:

\$211,877 (13%) cash downpayment, seller carried

back \$1,417,948 for short term until SBA loan was

approved

Cash Equivalency Adj.:

None needed as terms were indicated to have had not

resulted in a sales price above market value

Cash Equivalent Price:

\$1,629,825

Unit Price:

\$150.70 per square foot

Site Data

Assessor's Parcel No.:

118-54-045

Legal Description:

E2 of Lot 52, LOS OLIVOS AMENDED

Site Area:

30,492 square feet or 0.070 net acre

Shape/Dimensions:

Irregular; see plat map

Zoning:

R-5, Multi-family Residential

Frontage/Access:

243.31 feet on the west side of 7th Street, a section line arterial street; 144.88 feet on the north side of Coronado Road, a neighborhood street; 23.00 feet on

a rear alley

Offsites:

7th Street - Asphalt-paved for three lanes in each direction, curb, gutter, sidewalk and streetlights; no

median

Coronado Road – Asphalt-paved for one lane in each direction; curb, gutter, sidewalk and streetlights; no

median

Traffic Count:

7th Street - 41,300 v.p.d. (2005)

Coronado Road - Light, unmeasured

Improvement Data

Gross Building Area:

10,815 square feet

Land-to-Building Ratio:

2.82:1

Building Description:

Class C, single-story, masonry building, built-up roof;

100% air conditioned

Parking:

1:416 s.f. with 20 surface spaces and 6 covered

spaces

Site Improvements:

Asphalt-paved parking, landscaping

Age/Condition/Appeal:

Built in 1981; average; average

Income Data

Occupancy:

Owner-occupied when sold; buyer will occupy

Terms:

NA

Rate:

NA

Escalations:

NA

Reimbursements:

NA

Rates and Factors:

NA

History:

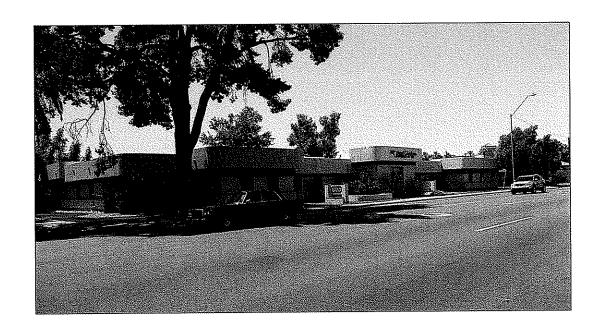
The property was marketed for two years and eight months at a price of \$2,335,000. This sale represents a discount of 30.2% from the offering price. No other sales were noted in the prior five years.

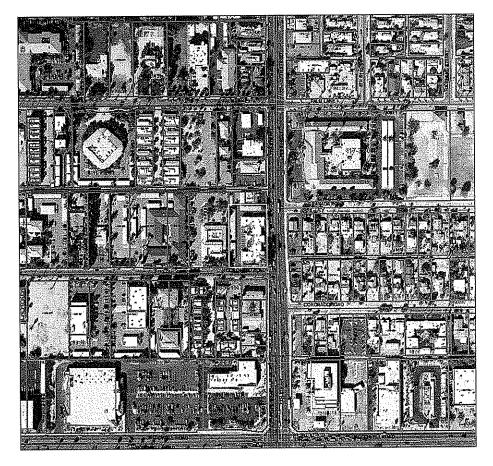
Confirmation:

Public records; Barry Harvey, selling agent, Business Condo Experts, 480-366-4469, July 7, 2009

Comments:

The property is located on 7th Street one block north of McDowell Road to the east of the mid-town Central Avenue office corridor. Surrounding uses include offices on the north, west and south and single-family residences to the east.





Type:

Office Building

Location:

6024 North 7th Avenue, Phoenix, Arizona

Sale Data

Grantor:

TNT Property Ventures, LLC

Grantee:

Mosaic Holdings, LLC

Date of Sale: Recorded Date: February, 2009 April 10, 2009

Instrument:

Special Warranty Deed

Instrument No.:

09-00319699

Sales Price:

\$290,000

Terms:

Cash

Unit Price:

\$76.32 per square foot

Site Data

Assessor's Parcel No.:

156-29-027

Legal Description:

Part of Section 7, T-2N, R-3E of the G&SRB&M,

Maricopa County, Arizona.

Site Area:

12,000 square feet or 0.276 net acre

Shape/Dimensions:

Rectangular; 60.00' x 200.00'

Zoning:

R-5, Multi-family Residential

Frontage/Access:

60.00 feet on 7th Street, a north/south section-line

arterial street

Offsites:

Asphalt-paved for 3 lanes northbound and 2 lanes

southbound, painted median, curb, gutter, sidewalk

and streetlights

Traffic Count:

32,600 v.p.d. (2005)

Improvement Data

Gross Building Area:

3,800 square feet

Land-to-Building Ratio:

3.16:1

Building Description:

Class C, 1-story masonry building with a built-up roof, centrally refrigerated and heated, typical office build-

out

Parking:

1:422 s.f. with 5 open spaces and 4 covered spaces

Site Improvements:

Asphalt-paved parking, business identification sign

Age/Condition/Appeal:

Built in 1961; fair (\$55,000 to replace fixtures and to

rehabilitate the space after previous owner stripped the

interior after foreclosure); average

Income Data

Occupancy:

100% occupied by owner before and after sale

Terms:

NA

Rate:

NA

Escalations:

NA

Reimbursements:

NA

Rates and Factors:

Purchased by owner-user

History:

The property was foreclosed upon in January, 2009, with a trustee's sale at a price of \$310,000. It last sold in June, 2006, for \$550,000. No other sales or listings

were noted in the previous five years.

Confirmation:

Public records; Scott Gibson, buyer representative,

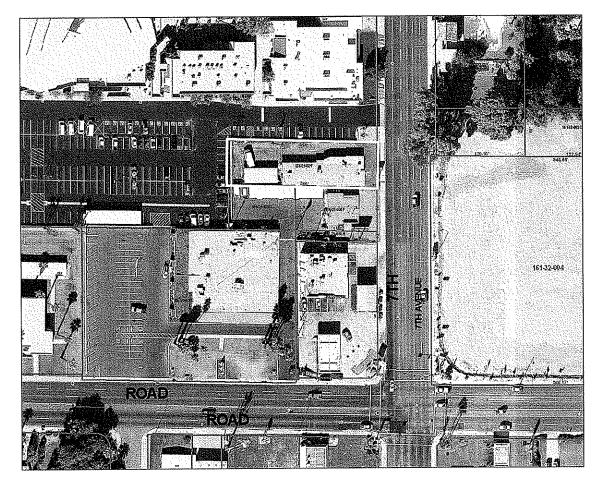
602-850-7368, x208, September 18, 2009

Comments:

The property is centrally located in Phoenix on 7th Street just north of Bethany Home Road. Commercial and retail properties are the north, west and south.

Vacant land is to the east, across 7th Street.





Type:

Office Building

Location:

4434 North 12th Street, Phoenix, Arizona

Sale Data

Grantor:

12th Street Ventures, LLC

Grantee:

12th Street Land Systems, LLC

Date of Sale: Recorded Date: December, 2008 February 9, 2009

Instrument:

Special Warranty Deed

Instrument No.:

09-0126854

Sales Price:

\$1,300,000

Terms:

Cash

Unit Price:

\$131.50 per square foot

Site Data

Assessor's Parcel No.:

155-14-042

Legal Description:

Lot 3, Block 1, MEADOWBROOK TRACT

Site Area:

23,800 square feet or 0.546 net acre

Shape/Dimensions:

Rectangular; 100.00' x 238.00'

Zoning:

R-5, Multi-family Residential

Frontage/Access:

100.00 feet on the west side of 12th Street, a mid-

section arterial street

Offsites:

Asphalt-paved for two lanes in each direction, curb,

gutter, sidewalk and streetlights; no median

Traffic Count:

13,100 v.p.d. (2005)

Improvement Data

Gross Building Area:

9,886 square feet

Land-to-Building Ratio:

2.41:1

Building Description:

Class B, 2-story, masonry building with tiled hip roof; single elevator; fully air conditioned; upgraded

restrooms with showers

Parking:

1:300 s.f. with 11 surface spaces and 22 covered

spaces

Site Improvements:

Asphalt-paved parking, landscaping

Age/Condition/Appeal:

Built in 1983; average; average

Income Data

Occupancy:

100% occupied by owner

Terms:

NA

Rate:

NA

Escalations:

NA

Reimbursements:

NA

Rates and Factors:

Purchased by owner-user

History:

The property was marketed for seven months at a price of \$1,600,000. The seller had purchased the building for \$1,119,917 with just \$150,000 down and the seller carrying back the balance, recording on January 25, 2008. The prior seller had purchased the property for \$950,000 with just \$60,000 down and the seller carrying back the balance, recording on May 31, 2005. No other sales were noted in the prior five

years.

Confirmation:

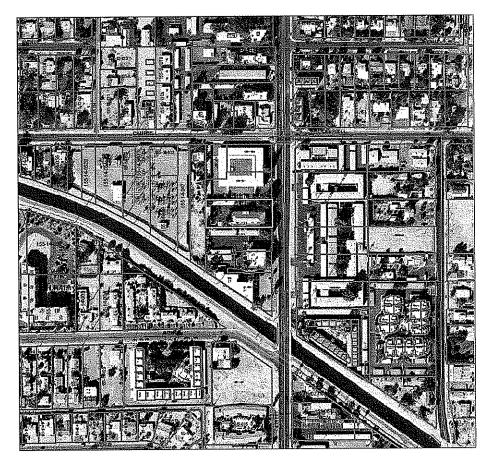
Public records; Kevin Lange, listing agent, Colliers

International, 602-222-5160, July 9, 2009

Comments:

The property is centrally located in Phoenix on 12th Street between Indian School Road and Camelback Road and surrounded by other office buildings.





Type:

Office Building

Location:

2048 North 44th Street, Phoenix, Arizona

Sale Data

Grantor:

Arcadia Executive Suites, LLC

Grantee:

JSL Holdings, LLC

Date of Sale: Recorded Date: November, 2008 February 3, 2009

Instrument:

Special Warranty Deed

Instrument No.:

09-0088464

Sales Price:

\$2,600,000

Terms:

Cash

Unit Price:

\$157.67 per square foot

Site Data

Assessor's Parcel No.:

126-26-060

Legal Description:

Lot 1, LAFFERTY COMMERCE PARK

Site Area:

43,996 square feet or 1.010 net acres

Shape/Dimensions:

Rectangular; 161.28' x 272.79' ±

Zoning:

C-O, Commercial Office

Frontage/Access:

161.28 feet on the west side of 44th Street, a mid-

section arterial street

Offsites:

Asphalt-paved for three lanes in each direction, raised

median, curb, gutter, sidewalk and streetlights

Traffic Count:

45,600 v.p.d. (2005)

Improvement Data

Gross Building Area:

16,490 square feet

Land-to-Building Ratio:

2.67:1

Building Description:

Class B, 2-story, masonry and steel frame building with built-up roof; single elevator; rooftop and split system HVAC, 120/240, 800 amp, 3-phase electrical;

includes 1,600 ± s.f. of warehouse space

Parking:

1:236 s.f. with 70 surface spaces

Site Improvements:

Asphalt-paved parking, landscaping

Age/Condition/Appeal:

Built in 2003; good; average

Income Data

Occupancy:

42.87% occupied by executive suite tenants; 55.13%

vacant

Terms:

Various

Rate:

\$32.89/s.f. average (executive suites)

Escalations:

CPI typical

Reimbursements:

None

Rates and Factors:

Purchased by owner-user to occupy vacant space; overall rate was not applicable due to high vacancy

rate

History:

The property was marketed for two years and three

months at a price of \$2,700,000. No other sales were

noted in the prior five years.

Confirmation:

Public records; Ann Sondrol, listing agent, Grubb &

Ellis|BRE Commercial, LLC, 602-224-4489, July 7,

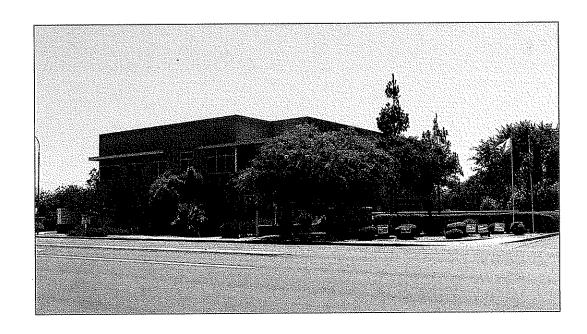
2009

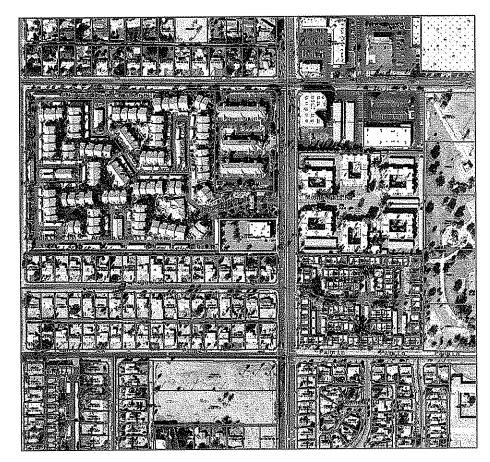
Comments:

The property is centrally located in the metropolitan area on 44th Street within one mile of the Loop 202 and SR 143. Surrounding uses include apartments to the

north and west, single-family residences to the south

and condominiums to the east.





Type:

Office Building

Location:

1717 East Morten Avenue, Phoenix, Arizona

Sale Data

Grantor: Grantee:

KKS Arroyo Square, LLC

Goldstone Development, LLC

Date of Sale:

March, 2008

Recorded Date: May 2, 2008

Instrument:

Special Warranty Deed

Instrument No.:

08-0394344

Sales Price:

\$1,850,000

Terms:

Cash

Unit Price:

\$154.15 per square foot

Site Data

Assessor's Parcel No.:

164-22-035C

Legal Description:

Part of S2 NW4 Section 3, T-2N, R-3E, G&SRB&M,

Maricopa County, Arizona.

Site Area:

35,501 square feet or 0.815 net acre

Shape/Dimensions:

Irregular; see plat map

Zoning:

C-O, Commercial Office

Frontage/Access:

214.42 feet on the north side of Morten Avenue, a

neighborhood street

Offsites:

Asphalt-paved for one lane in each direction, painted

median, curb, gutter, sidewalk and streetlights

Traffic Count:

Light, unmeasured

Improvement Data

Gross Building Area:

12,001 square feet

Land-to-Building Ratio:

2.96:1

Building Description:

Class B, 2-story, masonry construction with built-up

roof with foam; fully air conditioned; one elevator

Parking:

1:293 s.f. with 22 surface spaces and 19 covered

spaces

Site Improvements:

Asphalt-paved parking, minimal landscaping

Age/Condition/Appeal:

Built in 1980; average; average

Income Data

Occupancy:

90% occupied

Terms:

Various

Rate:

\$17.95/s.f./yr., full service (average)

Escalations:

Annual CPI typical

Reimbursements:

None

Operating Statement:

(Based upon listing agent's information)

Rental Income – 12,001 s.f. x \$17.95/s.f.	\$217,418
Other	\$ <u> </u>
Potential Gross Income	\$217,418
Vacancy & Collec. Loss – 10%	(\$ <u>21,742</u>)
Effective Gross Income	\$195,676
Less Expenses - \$6.09/s.f.	(\$ <u>73,140</u>)
Net Operating Income	\$122,536

Rates and Factors:

OAR 0.6620%

History:

The property was marketed for one year and three

months at a price of \$2,200,000. No other sales were

noted in the prior five years.

Confirmation:

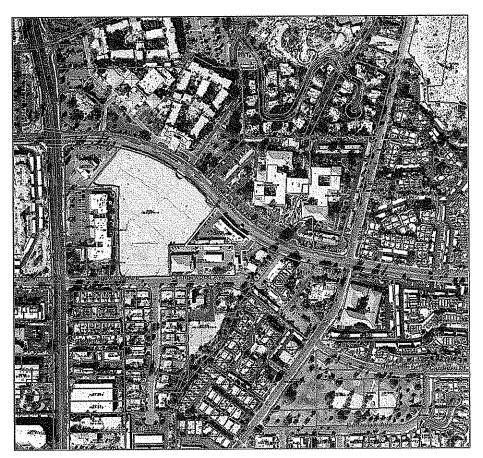
Public records; Braxton Glass, listing agent, EBS &

Associates, LLC, 480-552-2790, July 9, 2009

Comments:

The property has a central urban Phoenix location between SR 51 and 16th Street, north of Orangewood Avenue. Surrounding uses include an office complex to the north, offices to the east and south and vacant land to the west.





(Current Listing)

Type:

Office Building

Location:

2602 North 24th Street, Phoenix, Arizona

Sale Data

Grantor:

Holualoa CK Airpark, LLC

Grantee:

Current Listing

Date of Listing: Recorded Date: June, 2009 **Current Listing**

Instrument:

Current Listing

Instrument No.:

Current Listing

Sales Price:

\$785,000

Terms:

Cash

Unit Price:

\$84.89 per square foot

Site Data

Assessor's Parcel No.:

115-32-001S

Legal Description:

Part of SE4 Section 15, T-1N, R-3E, G&SRB&M,

Maricopa County, Arizona.

Site Area:

35,486 square feet or 0.815 net acre

Shape/Dimensions:

Square; see plat map

Zoning:

A-2, Industrial

Frontage/Access:

168.80 feet on 24th Street, a major north/south section line arterial; 148.80 feet on University Drive, a collector

street serving the office and industrial area south of I-10 from 28th Street to 16th Street

Offsites:

24th Street - Asphalt-paved for two lanes in each direction, painted median, curb, gutter, sidewalk and

streetlights

University Drive - Asphalt-paved for one lane in each direction, painted median, curb, gutter, and

streetlights; no sidewalk

The intersection is signalized.

Traffic Count:

24th Street – 18,300 v.p.d. (2005) University Drive – 9,900 v.p.d. (2005)

Improvement Data

Gross Building Area:

9,247 square feet

Land-to-Building Ratio:

3.84:1

Building Description:

Class C, 1-story office building of masonry construction with a built-up roof; centrally heated and

cooled; one elevator

Parking:

1:201 s.f. with 46 surface spaces

Site Improvements:

Asphalt-paved parking, green and gravel landscaping

Age/Condition/Appeal:

Built in 1972; average; over-partitioned

The leasing and selling agent, Mr. D.J. Bean, Cutler Commercial, 602-386-1234, indicated that the floorplan is overly divided into a maze of rooms and corridors. The odd and super-adequate floorplan has limited the building's marketability. In order to make the building more attractive to the market, the owner is going to "thin" the partitioning and create open areas for bullpen and cubicle use. Mr. Bean indicated that the landlord will spend \$40,000 or \$4.33 per square foot (\$40,000 \div 9,247 s.f.). The cost will fund demolition, removal, new drywall, ceilings, electrical,

floor coverings and minor plumbing work.

Income Data

Occupancy:

0%

Term:

NA

Rate:

\$0.70/s.f./yr., modified gross or \$8.40/s.f./yr.

Escalations:

Annual CPI typical

Reimbursements:

None

Operating Statement:

Rental Income –	\$NA
Other	\$ <u>NA</u>
Potential Gross Income	\$NA
Vacancy & Collec. Loss – 10%	(\$ <u>NA</u>)
Effective Gross Income	\$NA
Less Expenses - \$3.00/s.f.	(\$ <u>NA</u>)
Net Operating Income	\$NA

Rates and Factors:

NA

History:

The property has been marketed for three months. The property was formerly occupied by DES (Arizona Department of Economic Security). No other sales

were noted in the prior five years.

Confirmation:

Mr. D.J. Bean, Cutler Commercial, leasing and listing

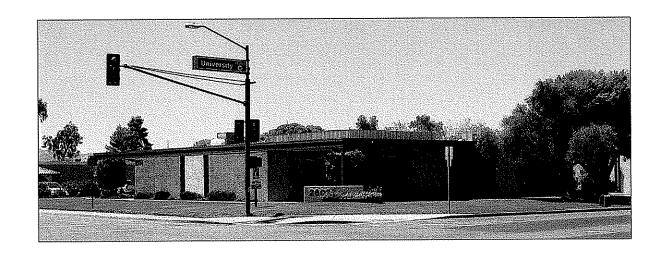
agent, 602-386-1234, September 25, 2009

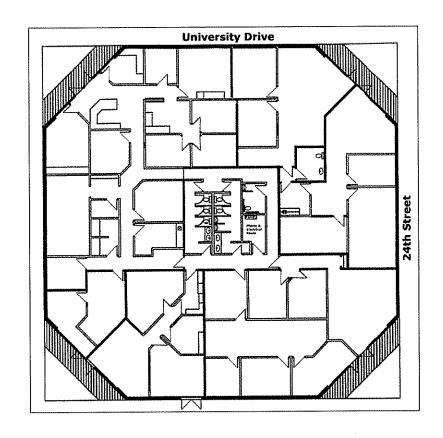
Comments:

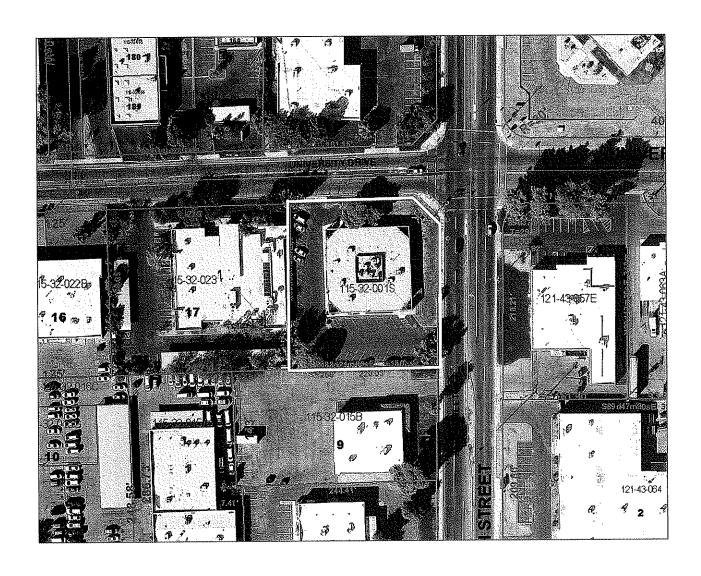
The property has a south-central urban Phoenix location, just south of Interstate-10 and Sky Harbor International Airport. Light industrial, lodging and

office uses fill the surrounding area.

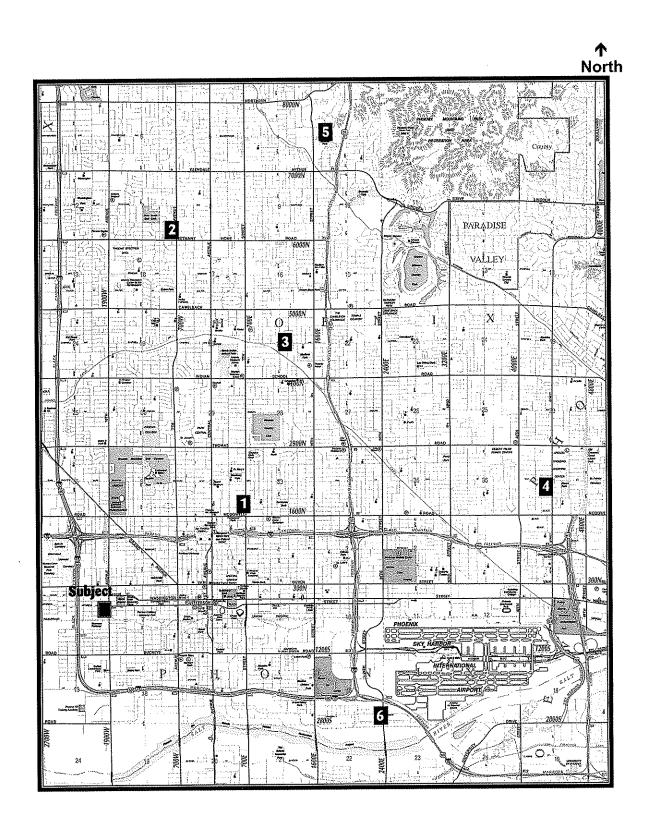
IMPROVED COMPARABLE NO. 6







IMPROVED COMPARABLES LOCATION MAP



107

SUMMARY OF IMPROVED COMPARABLES

OAR (Ro)	¥	¥	¥	<u>₹</u>	0.6620	A A	
Other (F	Functional with Average Appeal	Required \$55,000 in TIs Before Use	No Deferred Maintenance	Includes 1,600 ± s.f. Warehouse Space	Functional with 0.6 Average Appeal	Redesign of Floorplan Needed at Cost of \$40,000	Office Conversion Needed for Profitable Use
Zoning	R-5	R Ĉ	R-5	0	0-0	A-2	R-3
Traffic Count	41,300 vpd	32,600 vpd	13,100 vpd	45,600 vpd	Light	28,200	8,500 v.p.d.
Parking Ratio	1:416 s.f.	1:422 s.f.	1:300 s.f.	1:236 s.f.	1:293 s.f.	1:201 s.f.	Assumed Typical
Price/ S.F.	\$150.70	\$ 76.32	\$131.50	\$157.67	\$154.15	\$ 84.89	4 H H H H H H H H H H H H H H H H H H H
L-to-B Ratio	2.82:1	3.16:1	2.41:1	2.67:1	2.96:1	3.84:1	3.31:1
Age/ Condition	1981 Average	1961 Fair	1983 Average	2003 Good	1980 Average	1972 Average	1968 -Average
Gross Area	10,815 s.f.	3,800 s.f.	9,886 s.f.	16,490 s.f.	12,001 s.f.	9,247 s.f.	9,052 s.f.
Cash Equiv. Gross Area Price	\$1,629,825	\$ 290,000	\$1,300,000	\$2,600,000	\$1,850,000	\$ 785,000	= = = = = = = = = = = = = = = = = = = =
Date	2-09	2-09	12-08	11-08	3-08	Listing	8-09
Location	1700 N. 7 th St., Phoenix	6024 N. 7 th Ave., Phoenix	4434 N. 12 th St., Phoenix	2048 N. 44 th St., Phoenix	1717 E. Morten Ave., Phoenix	2602 S. 24 th St., Phoenix	1937 W. Jefferson St., Phoenix
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General Market Data

CoStar, a data service I have relied on the market and sales information, tallied office building sales of 15,000 square feet or larger. They found that Phoenix office sales figures fell during 1st Quarter 2009 in terms of dollar volume compared to 4th Quarter 2008. In 1st Quarter, eight office transactions closed with a total volume of \$33,161,500. The eight buildings totaled 302,797 square feet and the sales indicated an average package price (price per square foot) of \$109.52. That compares to 11 transactions totaling \$92,591,250 in 4th Quarter 2008. The total square footage in 4th Quarter was 544,843 square feet for an average package price of \$169.94 per square foot. Total office building sales activity in 2009 was down compared to 2008. In 1st Quarter 2008, the market posted 21 transactions with a total volume of \$557,378,230 with an average package price of \$269.09 per square foot.

Cap rates have been higher in 2009, averaging 7.50% compared to the same period in 2008 when they averaged 7.10%.

Factors Affecting Marketability

The following factors were the major influences on value in the market segment to which the subject belongs:

Property Rights Conveyed

The market value of the undivided fee simple interest was estimated for the subject property as it was assumed to be occupied by either an owner-occupant or a tenant at a market rate and occupancy. Even so, the subject had greatest appeal to an owner-user.

Comparable Nos. 1, 2, and 3 were sales of buildings from and to owner-users. Nos. 4 and 5 were sales of leased fee interests that were purchased for investments, and in the case of No. 4, partial owner-occupancy. No. 6 is a listing that would likely appeal to an owner-user as it is not well-suited for multi-tenancy.

My investigation found that since the buildings were from 90 to 100% leased or that the buyer would occupy some or all of the vacant space, no adjustments were necessary for differences between fee simple and leased fee.

Terms of Sale

The subject was appraised assuming a cash sale or one with cash equivalent terms. Seller-carried terms generally influence the price paid as they are more generous than terms available for first or second mortgage lenders. The seller receives a premium over market value in order to counter the risk of a carryback. Since market value is estimated for the real estate only, any premium paid for generous terms must be deducted.

As <u>Comparable Nos. 2, 3, 4, 5 and 6</u> sold, or in the case of <u>No. 6</u>, listed, for cash or cash equivalent terms, no adjustments were indicated.

Comparable No. 1 sold with the seller carrying back a short term note until a SBA loan could be obtained. As the listing agent indicated that the financing did not result in a premium paid over market value, no adjustment was necessary.

Conditions of Sale

The subject was appraised assuming normal conditions of sale in which a sale is armslength, the price was not unduly influenced by distress situations or inter-related party transfers and the property had adequate exposure to the market.

When questioned during the confirmation process, the sellers, buyers, brokers or agents involved in <u>Comparable Nos. 1, 2, 3, 4, and 5</u> indicated that these comparables met the criteria for normal conditions of sale. Thus, no adjustments were indicated.

No. 6 is a listing, priced at what the seller hopes will be the sales price. But as listings are priced high in order to account for buyer-seller negotiation, it is likely to sell for less. Thus, I have applied a downward 5% adjustment to its price in the adjustment grid to follow.

Market Conditions

The subject was appraised as of the date of valuation, August 25, 2009. Given the passage of time, market prices generally change given fluctuations in supply and demand. Thus, adjustments to older sales, whether up or down, must be considered. The subject (upon conversion) will belong to the general office market segment that has experienced a decline in demand over the past 18 months, specifically for investmentoriented properties. Owner-user properties have continued to sell, but also at a reduced One of the greatest difficulties, according to active market participants, is in In December, 2007, the market became aware that obtaining suitable financing. Since that time the situation has become financing was more difficult to obtain. progressively worse. In the fall of 2008, with the plunge in the stock market, a rash of bank failings, and federal bailouts of major lending institutions, commercial mortgage funds were largely unavailable. While certain lenders continued to be active, among them the Small Business Administration, these loans were directed to primarily to ownerusers.

In addition to difficulties in obtaining financing, the pattern of declining rental rates coupled with increasing vacancy rates due to an overbuilt office market have made many office investments less attractive. Locally, regionally and nationally, the ongoing recession has resulted in reduced market activity. Few entities are contemplating expansion or development of new facilities. The inability of prospective investors to obtain financing has effectually reduced the pool of purchasers to owner-users with

access to financing and those with available cash. And discussions with knowledgeable brokers indicated that many of those potential buyers have been "waiting for the bottom" as prices of all categories of real estate decline.

<u>Comparable Nos. 1, 2, 3 and 4</u> sold between November, 2008, and February, 2009, under conditions generally similar to those as of the effective date of the appraisal. For the similarity, no adjustments for market conditions were necessary. Since <u>No. 6</u> was a listing, it too reflected current market conditions.

No. 5 sold in March, 2008, when prices were even higher before the period of greater decline in the fall of 2008. From my study of the data and analysis of market conditions, I have applied a downward adjustment to this comparable.

Buyer Motivation

<u>User v. Investor</u> – At times, users are often willing to pay a premium over the prices that investors pay. In general, users are examining the immediate potential or value of a property for their specific ready-to-use needs. They do not anticipate the risk of tenant occupancy and fluctuating net income that an investor recognizes. As noted in the Highest and Best Use Analysis, the subject property had appeal primarily to an owner-occupant.

Under current market conditions, owner-users are the predominant purchasers as investors are adverse to purchasing under conditions of declining rental rates and increasing vacancy. In addition, financing is more available for owner-users. In any event, <u>Comparable Nos. 1, 2, 3, 4, and 5</u> were purchased by owner-users or an investor occupying a significant portion of the building, thus no adjustments needed to be considered.

<u>Assemblage</u> - When buyers have a need to expand an existing location, they usually are forced to pay a premium over market value for their lack of substitution.

Comparable Nos. 1, 2, 3, 4, 5, and 6 were not purchased or listed assuming assemblage. Thus, no adjustments were necessary.

<u>Special Need</u> - Buyers may have special needs that prevent them from choosing a substitute property available on the open market.

<u>Comparable Nos. 1 through 6</u> were not purchased or assumed to be purchased by buyers with special need. Thus, no adjustments were necessary.

Location

<u>General Location</u> – General locational factors include the market's perception of a particular neighborhood or area of the community, support facilities, growth and development potential. Because the subject is in the governmental mall, that extends

from Central Avenue to 20th Avenue, it has pleasant surroundings. Otherwise, the location, so far south and west is not a desirable office location. The location limits the number of potential buyers as most office users would prefer to be further north and east in more popular commercial/retail and office locations that have surrounding populations with superior demographics.

Comparable Nos. 1, 2, 3, 4, 5 and 6 had superior general locations in central, south-central and northeast-central Phoenix as they were in established and typical commercial/retail and office districts. Thus, downward adjustments were necessary.

<u>Specific</u> – Specific locational features relate to setting. If a parcel is located in a cluster of commercial/retail development, part of a shopping center or in a masterplanned community that has an appealing theme, it may bring a premium in the marketplace given the added customer draw of the surroundings. On the other hand, land that is surrounded by unattractive locational features may sell at a reduced price.

Although the subject was within the governmental mall which is appealing to a certain extent, this locational influence was considered "general" and accounted for in the previous factor affecting value.

Comparable Nos. 1, 2, 3, 4, 5, and 6 had no specific locational features. Thus, no adjustments were necessary.

Frontage/Access

Frontage is important to the marketability of land as it generally provides publicly-dedicated and maintained access. Access can be judged from streets immediate to the subject or from adjacent or nearby boulevards, expressways or freeways. This grouping includes categories that are closely related but the distinction is important.

<u>Frontage</u> – The subject has frontage on a publicly-dedicated, improved and maintained right-of-way.

As <u>Comparable Nos. 1 through 6</u> had frontage on publicly-dedicated and maintained streets, no adjustments were necessary.

<u>Access</u> – The subject had access from Jefferson Street which was sufficient for its current and future use. It also had crossover access to 20th Avenue.

As <u>Comparable Nos. 1, 2, 3, 4, 5, and 6</u> had similar access from their frontages, no adjustments were required.

Visibility/Traffic Count

For a professional office building in the subject's market segment, the visibility and a strong traffic count allows it to be noticed by clients and tenants which can enhance the appeal, marketability and rentability of the improved property.

<u>Visibility</u> - At times, the visibility of an office building can be blocked by adjoining buildings, terrain or the frontage can be too narrow to take advantage of the traffic count. In the subject's case, it had broad enough and sufficient unblocked frontage along its frontage to allow it average visibility.

Comparable Nos. 1, 2, 3, 4, 5, and 6 all had adequate visibility. For their similarity to the subject, no adjustments were necessary.

<u>Traffic Count</u> – Significant amounts of traffic can enhance the marketability of an office building as more prospective tenants and clients pass by the building on an average weekday. The subject had traffic count of 8,500 v.p.d. along its frontage, a relatively light count.

Comparable No. 3 had a traffic count of 13,100 v.p.d. which was relatively light like the subject's. Given the similarity, no adjustment was needed.

No. 5 had a light, unmeasured count. For its inferiority, an upward adjustment was needed.

Comparable Nos. 1, 2, 4, and 6 had traffic counts ranging from 28,200 to 41,300 vehicles per average weekday. For their superiority, downward adjustments were necessary.

Size

Size often influences the price paid for office building properties. Usually, buildings in a larger size classification tend to sell at a lower unit price than buildings in a smaller size classification as larger buildings appeal to a smaller market segment, and generally require a longer marketing and holding period.

The subject property was 9,052 gross square feet in size. Its size places it well within my data sample which had sizes ranging from 3,800 square feet to 16,490 square feet. My examination and analysis of the comparables indicated that the <u>Comparable Nos. 1, 3, 5 and 6</u>, with sizes ranging from 9,247 square feet to 12,001 square feet, were sufficiently similar to the subject so that no adjustments were required.

No. 2 was smaller than the subject with a gross building area of 3,800 square feet. For the greater number of market participants competing for a smaller building, a downward adjustment was necessary in the comparison process.

No. 4 was larger with 16,490 square feet of gross area. For its larger size that limits its marketability (fewer potential purchasers), an upward adjustment was indicated.

Age/Condition/Appeal

Buyers and sellers tend to group these three factors into a single adjustment, but each category is discussed separately.

Age - The subject was built in 1968. The comparable properties were built from 1961 to 2003. For the most part, buyers are less discerning about age and pay more attention to a property's condition assuming they do not exhibit excessive deferred maintenance. In my comparisons of the data to the subject, adjustments for "age" were combined with adjustments for "condition".

<u>Condition</u> – The subject appears to have been well maintained as little deferred maintenance was noted. Despite its 41-year age, it was in average condition.

Comparable Nos. 1, 3, 5 and 6 appeared to be in average condition when they sold. Given their similarity, no adjustments were needed.

No. 4 was a newer building. In comparing it to the subject, a downward adjustment for its superior condition was necessary.

No. 2 was in fair condition when it sold--inferior to the subject. It had been stripped and damaged by the former owner. It required an immediate infusion of \$55,000 ± for repairs. For its lesser market appeal, an upward adjustment was required.

Appeal – This category reflects extras, the exterior design and attractiveness, and the overall market appeal of the subject and the comparables. The subject property had fair market appeal given its plain and modest design and quality of construction. But most importantly, it had features of a day care facility that needed to be changed to allow office conversion. The cost to convert does not appear to be infeasible. The subject building has a relatively open and functional floorplan for office use. Given today's office build-out, it lends itself well to bullpen and cubicle space as well as private offices, conference areas break room/kitchen, restrooms and storage. The design of the building with wings, multiple entrances and exits easily allows multi-tenancy. However, it could well serve a single tenant with at the least cost of conversion.

As discussed in Highest and Best Use Analysis, a similar single-story office building currently for sale and for lease at 2602 South 24th Street in Phoenix (APN 115-32-001S) requires retrofitting to be appealing to the office market and as marketable as possible. The leasing and selling agent, Mr. D.J. Bean, Cutler Commercial, 602-386-1234, indicated that the floorplan is overly divided into a maze of rooms and corridors. The odd and super-adequate floorplan has limited the building's marketability. In order to make the building more attractive to the market, the owner is going to "thin" the partitioning and create open areas for bullpen and cubicle use. Mr. Bean indicated that the landlord will

spend \$40,000 or \$4.33 per square foot (\$40,000 ÷ 9,247 s.f.). The cost will fund demolition, removal, new drywall, ceilings, electrical, floor coverings and minor plumbing work.

The subject does not appear to need as much partitioning work, but some of the childsize restrooms will have to be removed and the other retrofitted for adult use. Other work will entail removing some of the sinks, laundry connections and super-adequate kitchen features. The exterior will require the removal of excessive fencing and the playground equipment.

In all, an expense of \$50,000 to \$70,000 appears necessary for office conversion (\$5.50 to \$7.75/s.f., rd.). A number near the higher end of the range is likely. Of course more could be spent on enhancing the exterior, entries, computer and Internet wiring and interior embellishments. But given the age and location of the building, the prudent investor would be careful not to overspend.

In my sample of sales, <u>Comparable Nos. 2 and 6</u> were similar as they were modest buildings. But neither required the retrofitting to the extent that the subject needed. <u>Nos. 1, 3, 4, and 5</u> were more modern in their appearance, typically designed and were of better quality than the subject. They also did not need conversion.

However, I made no adjustments in the adjustment grid to follow. Instead, I assumed the subject to be converted to allow an office use. At the final step in the valuation process, I deducted an appropriate amount for conversion to indicate the subject's market value, "as is".

Zoning

Zoning may enhance the potential to draw a wide variety of tenants to some property types—commercial, retail, and industrial for instance. But in the office market segment, zoning has little effect except to allow professional office uses. When the improvements have a short remaining economic life, zoning and land value may be a more important component of overall property value. For the subject, its current zoning does not permit office use. But the subject shares a parking lot with an office use and office use is common in the immediate area. A variance, special use permit or even rezoning appear to be easily obtained.

As <u>Comparable Nos. 1, 2, 3, 4, 5, and 6</u> all represented long-term office uses of the land they occupied, no adjustments for zoning were indicated.

Parking Ratio

Parking ratio is implicitly tied to the land-to-building ratio of a property. Given the legal description, only seven open spaces (to the east of the building) are within the boundaries of the property for a ratio of 1:293 s.f. of gross building area, which is insufficient for any use of the building. But I have assumed crossover parking which

would provide a typical parking ratio of at least 1:300 s.f. Many office investors prefer one space for each 250 square feet to allow for tenants which are personnel-intensive. However, the subject was assumed to have had crossover parking rights with land to the west and south—parking lots. Thus, the subject easily had all the parking the market demands.

The data in my sample had parking ratios within a range from 1 space for each 201 square feet to 1 space for each 422 square feet.

Comparable Nos. 1, 2, 3, and 5 had ratios that were similar to the subject's effective ratio with the added parking from adjacent land. For their similarity, no adjustments were necessary.

Nos. 4 and 6 had insufficient parking as indicated by the ratios. Thus, upward adjustments were needed.

Economic Factors

This category of factors recognizes the creditworthiness, lease terms or rental rates that were noted to have a measurable influence on the selling prices of the data. As the undivided fee simple interest was the appraised, the subject was assumed to be either owner-occupied or by a tenant at a market rental rate.

My analysis of <u>Comparable Nos. 1 through 6</u> indicated that no below- or above-market lease rates, occupancies or tenant creditworthiness measurably influenced their values. Thus, no adjustments needed to be considered.

Summary of Adjustments

The adjustment grid on the following page charted the subject property and the sales and the relevant information about each one. Differences between the subject and the sales were identified. The sales prices for each were adjusted in accordance with the discussion related above. The adjusted prices indicate a range of estimated market value for the subject property. Following the presentation of the grid is my opinion of market value, as improved.

SALES COMPARISON APPROACH - AS IMPROVED
APN 109-49-072 (State of Arizona) 1937 West Jefferson Street, Phoenix, Arizona
Date of Valuation - August 25, 2009

			ADJUSTMENT GRID	T GRID			
Comparable No.	Subject	-	2	3	4	5	9
Location	1937 W. Jefferson	1700 N. 7th St.,	6024 N. 7th Ave.,	4434 N. 12th St., Phoeniy	2048 N. 44th St., Phoenix	1717 E. Morten Ave., Phoenix	2602 S. 24th St., Phoenix
Sales Ories	St., Fildellix	\$1.629.825	\$290,000	\$1,300,000	\$2,600,000	\$1,850,000	\$785,000
Unit Price (Price/S.F.)	Ϋ́N	\$150,70	\$76.32	\$131.50	\$157.67	\$154,15	\$84.89
Property Rights Conveyed Adjustment	Undivided Fee Simple	Fee Simple 0%	Fee Simple 0%	Fee Simple 0%	Fee Simple 0%	Fee Simple 0%	Fee Simple 0%
Terms of Sale Adjustment	Cash	CBK 0%	Cash 0%	Cash 0%	Cash 0%	Cash 0%	Cash 0%
Conditions of Sale Adjustment	Normal	Normal 0%	Normal 0%	Normal 0%	Normal 0%	Normai 0%	Normal 0%
Market Conditions (Time) Adjustment	Aug-09	Feb-09 0%	Feb-09 0%	Dec-08 0%	%0 0%	Mar-08 -10%	Listing -5%
Buyer Motivation Adjustment	User	User 0%	User 0%	User 0%	User 0%	investor 0%	User (Likely) 0%
Assemblage/Special Need Adjustment	None/None	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%
Adjusted Unit Price		\$150.70	\$76.32	\$131.50	\$157.67	\$138,74	\$80.65
Location - General/Specific Adjustment	AvgFair/Average	Superior/Similar -10%	Superior/Similar -10%	Superior/Simílar -10%	Superior/Similar -10%	Superior/Similar -10%	Superior/Simitar -5%
Frontage/Access Adjustment	Public/Average	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%	Similar/Similar 0%
Visibility/Traffic Count Adjustment	Average/8,500 v.p.d.	Similar/41,300 v.p.d.	Similar/32,600 v.p.d. -10%	Similar/13,100 v.p.d. 0%	Similar/45,600 v.p.d. -10%	Similar/Light -5%	Similar/28,200 v.p.d. -5%
Gross Building Area (S.F.) Adjustment	9,052	10,815	3,800	9,886	16,490 5%	12,001 0%	9,247
Age/Condition/Appeal Adjustment	1968/Avg./Fair	1981/Sim./Sup. -20%	1961/Inf./Sim. 30%	1983/Sim./Sup. -20%	2003/Sup./Sup. -35%	1980/Sim./Sup. -20%	1972/Sim./Sim. 0%
Zoning Adjustment	R-3	R-5	R-5 0%	R-5 0%	%0 0-0	000	A-2 0%
Parking Ratio Adjustment	1:300 sf (effective)	1:416 sf 5%	1:422 sf 5%	1:300 sf 0%	1:236 sf 0%	1:293 sf 0%	1:201sf 0%
Economic Factors Adjustment	Typical Assumed	Similar 0%	Similar 0%	Similar 0%	Similar 0%	Similar 0%	Similar 0%
Overall Adjustment		-35%	2%	-30%	-20%	-35%	-10%
Estimated Value Range (Price/S.F.)	:e/S.F.)	\$97.96	\$80.13	\$92.05	\$78.84	\$90.18	\$72.58

Conclusion to the Analysis

Unadjusted, the comparable sales indicated a price range from \$76.32 to \$157.67 square foot of gross building area. Adjusted, they present a narrower range from \$72.58 to \$97.96 per square foot. Applying the adjusted range to the subject's gross building area provides the following:

\$72.58/s.f. x 9.052 s.f. = \$656,994

- to -

\$97.96/s.f. x 9,052 s.f. = \$886,734

Opinion of Market Value

Given the good comparison of the data but recognizing the weakness in the market, a preliminary opinion of market value (before deduction of the cost of conversion) near the middle of the range was indicated. Acknowledging that the market usually rounds to a whole number, my preliminary opinion of the market value of the undivided fee simple interest in the subject property was \$800,000. As discussed in Highest and Best Use Analysis and under "Appeal" in this section of the report, I have deducted an estimated cost of \$65,000 from my preliminary opinion of value. Thus, from the application of the Sales Comparison Approach, as of the effective date of the appraisal August 25, 2009, was \$735,000, which indicates a package price of \$81.20 per square foot of gross building area (\$725,000 ÷ 9,052 square feet). My opinion of market value was subject to a special limiting condition stated on page 12.

Exposure Period

The exposure period for the marketing of the subject depends on many factors including current market conditions, the factors of supply and demand, pricing and professional marketing. Agents interviewed for this assignment report decreased demand for properties like the subject. Based on this information, I have estimated a six-month exposure time for subject property, assuming it has been priced appropriately within 10 percent of the appraised value and professionally marketed.

INCOME APPROACH TO VALUE

The Income Approach is utilized to arrive at an estimate of value by converting anticipated benefits, such as net operating income, into property value. The conversion can be completed via the capitalization of a single year's income expectancy at a market derived rate or by discounting the annual cash flows over the holding period and the reversion at a specified yield rate.

This approach is relied upon primarily by investors as the earning power of the property is critical to their decisions. An investor will trade an amount of money today in order to receive the right to future flows of money. The investor's decision is based on the factors that affect value in all cases; anticipation and change, supply and demand, substitution, balance and external forces.

Traditional Method

Traditionally, the Income Approach has been viewed as consisting of three steps. In the first step, market rent and stabilized vacancy are estimated providing both estimates of potential gross income and effective gross income.

Estimation of Market Rent and Income

Market rent is defined as:

"The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

- 1. Lessee and lessor are typically motivated
- 2. Both parties are well informed or well advised, and acting in what they consider their best interest
- 3. A reasonable time is allowed for exposure in the open market
- The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract

5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.⁹

The estimate of market rent will indicate potential gross income attributable to the property under full occupancy. But this gross income is diminished by vacancy and expenses relating to the continuation of the expected income stream.

Stabilized vacancy refers to an annual rate influenced by current market conditions but also what is expected to be typical over the holding period. Most investors overlook short term aberrations and will project stable rates based on past histories and future expectations.

Effective gross income is derived by deducting an estimate of vacancy and credit loss. Vacancy is one of the market conditions that is estimated as of the date of valuation but also influenced by considering past and expected trends.

Fixed and Variable Operating Expenses

For the second step in the process, applicable expenses of operation are estimated and deducted from effective gross income. Like the estimate of vacancy, the estimated expenses represent stabilized or typical amounts adjusted to represent normal operations over the typical holding period. Applicable categories and expenses are determined through market comparison and survey. Non-cash accounting expenses are not considered (e.g. depreciation); only those expenses pertaining directly to the operations of the property are used. The effective gross income less estimated expenses is called the net operating income.

Capitalization of Net Operating Income

The third step is the conversion of the net operating income into an indication of property value. Capitalization is simply the conversion of income into value. In the conversion of net operating income to value, various methods of capitalization were considered. The two main capitalization methods are **direct capitalization** and **yield capitalization**.

The first method is market-oriented and relatively simple. Income is converted to a value indication by dividing one year's income by an appropriate rate derived from the market. Investors rely upon direct capitalization using estimates of net income and an overall rate extracted from recent sales. This method works well when the subject property, as well as the comparable sales, are at, or near, stabilized occupancy.

Appraisal Institute, <u>The Dictionary of Real Estate Appraisal</u>, Fourth Edition, (Chicago, Illinois: Appraisal Institute, 2002), page 176

Yield capitalization simulates investor assumptions and constraints with formulas that discount future benefits to present values. With this type of capitalization attitudes and expectations of the market must be accurately projected. A holding period must be selected; future cash flows must be identified; an accurate yield (discount) rate is estimated; and the discounting of the future benefits and a reversion must be completed.

Market Application of the Income Approach

As indicated by the comparable sales presented in the previous section of this report, the most likely buyer of a property like the subject, under current market conditions, is an owner-user. Even so, this approach must assume the property is leased to allow its maximum return.

Applied Valuation Technique

As mentioned above, the typical buyer would use direct capitalization of existing net income with a few modifications depending on the buyer's assumptions of the subject's performance in the near and intermediate future.

My valuation scenario for the subject includes the following assumptions and processes:

- 1. Estimation of Market Rent Through market comparison, I estimated the subject's current market rent.
- 2. **Estimation of Potential Gross Income** In estimating the potential gross income of the subject property, I utilized my estimate of market rent assuming the market rate.
- Estimation of Vacancy Rate and Credit Loss The typical buyer would be confident in filling the property for a certain percentage of time over the holding period. I estimated stabilized occupancy and credit loss based on market comparison and partial owner-user occupancy.
- 4. Estimate Operating Expenses Like the estimate of vacancy and credit loss, the estimated expenses represent stabilized or typical amounts adjusted to represent normal operations. Applicable categories of expenses are determined through market analysis. Non-cash accounting expenses, such as depreciation, and unusual/atypical expenses such as capital expenditures, debt service or corporation fees are not considered. Only those expenses pertaining directly to the operation of the property are deducted.
- 5. **Estimation of Net Operating Income** Potential Gross Income, Vacancy & Credit Loss and Operating Expenses are summed to arrive at an estimate of Net Operating Income before taxes and debt service.
- 6. **Estimation of Capitalization Rate** A market-supported capitalization rate was estimated from previously presented sales, additional market data and information supplied by various nationally published investor surveys.
- 7. Capitalization of Income and Estimation of Value An appropriate overall rate estimated from the market is applied to net income for an estimate of market value.

Lease Structure

It is important to note that lease structures can vary widely between different property types and even among similar property types. Specifically, most leases are structured in one of three ways. These common leasing structures and the treatment of expense items (i.e. paid by owner or paid by tenant) with each is described below:

Summary of Lease Structures

Full Se	rvice	Modified or Ind	ustrial Gross	N. C.	let
Owner	Tenant	Owner	Tenant	Owner	Tenant
RE Taxes		RE Taxes			RE Taxes
Insurance		Insurance			Insurance
Management		Management			Management
Utilities		ū	Utilities		Utilities
Janitorial			Janitorial		Janitorial
Major Maint.		Major Maint.		Major Maint.	
Legal/Audit		Legal/Audit		Legal/Audit	

Most office properties are leased on a full service basis with the tenant paying few or no expenses. It is easier and less risky to charge sufficient rent to allow management to guarantee the payment of all expenses. For the appraisal of the subject I assumed it was leased on modified gross basis.

Estimation of Market Rent

For the purpose of estimating the market rents for the subject, office properties in the subject's market segment were surveyed. Following is an analysis of comparable properties that offer competition and substitution. Space within some of these properties was rented prior to the date of valuation indicating acceptance of current or past asking rates. Quoted rates reflect movement (if any) in the market. The comparables provided a range of rate from which the subject's market rent could be estimated after locational, physical and economic differences that affect rent were identified.

CENTRAL PHOENIX OFFICE RENTAL DATA AUGUST, 2009

YEAR BUILT AREA AVAILABLE EXPENSE ALLOCATION

OCCUPANY RATE ASKING OR ACTUAL

RENTAL RATES

BUILDING SIZE BUILDING CLASS

1984	5,388	Full Service*
2	51.6%	Asking
	2 ratio of 1:412 s.f.	2 51.6%

STORIES

Peter McSorely, leasing agent, RE/MAX Commercial Investment, 602-628-5066,

Scot Hall, leasing agent, Wolf Realty, 602-541-5200, September 18, 2009

ITEM

PROPERTY

ADDRESS

REMARKS

September 25, 2009

September 25, 2009



PHOTOGRAPH

2	Multi-tenanted Building	10.800	Class B	\$10.00-\$12.00
_	3120 N. 19th Ave.	1985	3,456	Modified Gross*
	Phoenix	2	68.0%	Asking & Actual
	34 spaces (11 covered) for a ra	tio of 1:318 s.f.; 2,38	0 s.f. & 1,197 s.f. lea	sed in 2009 @ \$10.00/s.f
	* Tenant pays electricity, janitor			

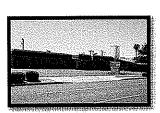


3	Single-tenant Building	13,424	Class C	\$9.00
	3333 N. 7th Ave.,	1961	13,424	NNN*
	Phoenix	2	0.0%	Asking
	50 spaces for ratio of 1:268 s.f.	; space vacant 1 mo.	; formerly occ. by City o	of Phoenix Parks Dpt.
	* Tenant reimburses operating	expenses, less electr	icity and janitorial, to la	ındlord
	Barry Rosensteel Jeasing agen			

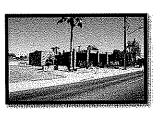


4	Single-tenant Building	5,829	Class C	\$12.00
	1407 E. Thomas Rd.	1967	5,829	NNN*
	Phoenix	1	0.0%	Asking
	25 spaces (open) for a ratio of	1:233 s.f.; vacant for	one year; some storag	e/warehouse space
	* Tenant reimburses operating	expenses, less electr	ricity and janitorial, to la	andlord

Ross Guttler, leasing agent, Logan Commercial Advisors, 602-714-8383, September 25, 2009

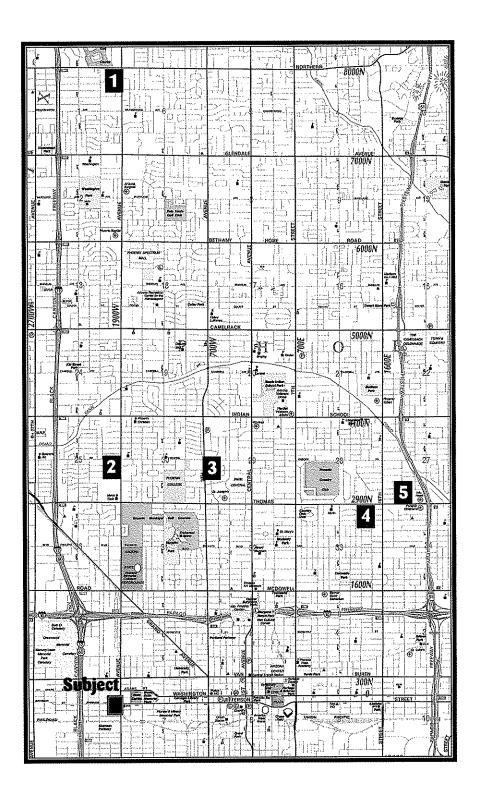


5	Single-tenant Building	6,482	Class C	\$12.00
	1726 E. Thomas Rd.	1980	6,482	Modified Gross
	Phoenix	1	0.0%	Asking
	15 parking space (open) for a rati If rented on a triple net basis (\$9.4 Kelly O'Dea, leasing agent, Levro	50/s.f.) then \$3.50/	s.f. in reimbursement	ts



OFFICE RENT COMPARABLES LOCATION MAP





Estimation of Market Rent

To analyze the subject property's market rent, I have surveyed competing properties in the subject's market segment and obtained information on the current occupancy and rental rates for five buildings that a potential tenant would consider as substitutes for the subject.

The rental rates for Rent Comparable Nos. 2 and 5 were from \$10.00 to \$12.00 per square foot, per year, modified gross, in which the tenant is responsible for the cost of electricity and/or janitorial. The lowest rent indication was from recent lease transactions. The subject is likely to be leased under a modified gross allocation of expenses as well.

Rent Comparable No. 1 indicated an asking rent of \$12.00 per square foot, per year, full service. Assuming \$1.50 per square foot for the cost of electricity per year, this rent would be \$10.50 ± per square foot on a modified gross basis before a deduction for janitorial. Deducting another \$1.00 per square foot would indicate a rent of \$9.50 per square foot.

Rent Comparable Nos. 3 and 4 are buildings in which the leasing agent is attempting to lease space on a triple net basis, in which the tenant pays rent and then pays a pro rata share of operating expenses directly to the landlord, essentially as additional rent. The agents are asking \$9.00 and \$12.00 per square foot per year. With negotiation, the tenant would likely pay an additional \$3.00 to \$4.00 per square foot for total rent on a modified gross basis (net of electricity/janitorial) of \$12.00 to \$16.00 (low to high) per square foot.

Opinion of Market Rent

I spoke with knowledgeable real estate agents and brokers regarding the subject's rental potential. Mr. Scot Hall, Wolf Realty, is an experienced real estate agent in the central Phoenix area. He indicated that the market is weak and any new leases must "lead the market", meaning landlords must be ready to lower rents to meet the sluggish demand.

Given the apparent decline of office rental rates attributable to declining occupancy, my opinion of market rent for the subject, as of the effective date of the appraisal, was \$10.00 per square foot, per year, modified gross, assuming office conversion is completed.

Potential Gross Rental Income

The subject's potential gross rental income was based on its gross building area as follows:

 $9,052 \text{ s.f. } \times 10.00/\text{s.f./yr.} = 90,520$

Reimbursements

No reimbursements were assumed under the allocation of stabilized operating expenses on a modified gross basis. However, in successive years, an expense stop would counter the inflationary increase in operating expenses.

Other Income

The property has no features such as covered parking that would produce "other" income. Late rent payment charges were reflected in the credit loss rate estimated below.

Vacancy and Credit Loss

Vacancy and credit loss are deducted from potential gross income to yield effective gross income. These losses are related to supply and demand, condition and continued appeal of the property, and the quality of management.

My survey of five office buildings in the subject's market segment indicated vacancy rates in small buildings from 32% to 100%. *CoStar* in their <u>Office Report 2nd Quarter 2009</u> indicated a metropolitan-wide rate of 20.5%. In West Phoenix, the subject's district, the rate was 23.5%.

As previously noted, the most likely purchaser of the subject would be an owner-occupant. This probability has the effect of largely offsetting the prevailing vacancy rate. As shown in the Sales Comparison Approach, five of the six buildings went from owner-occupancy upon sale.

Given that the most probable buyer under the market conditions as of the effective date of the appraisal would be an owner-user, in the estimation of the subject's effective gross income, it is likely that an informed buyer would have considered a combined vacancy and credit loss of 6%.

Effective Gross Income

Effective gross income can be calculated as follows:

Potential Gross Rental Income	\$90,520
Reimbursements	\$ 0
Other Income	\$ <u> 0</u>
Potential Gross Income	\$90,520
Less 6% Vacancy & Credit Loss	(\$ <u>5,431</u>)
Effective Gross Income	\$85,089

Stabilized Operating Expense Analysis

From effective gross income, fixed and variable expenses are then deducted to arrive at net operating income. For this appraisal of the undivided fee simple interest, the subject was assumed to be leased on a modified gross basis with the landlord paying most operating expenses except for electricity, gas, janitorial and minor maintenance. Since I was not provided with an operating expense history for the subject, my estimation of the subject stabilized operating expense relies primarily on expense data from similar buildings and opinions from building managers and leasing agents.

The category of reserves for replacements is conspicuously absent. For the most part, contributing to an account for reserves for replacement that is required to replace all expendable components of the property is not done by owners. Property like the subject is bought and sold "as is" and adjustments are made to the price for the condition of the property at the time of sale. Thus, the typical buyer in analyzing a property's value via the Income Approach, will not figure an amount for this category. Thus, as discussed later in this section of the report, overall rates are based on net income that was not decreased by a deduction for reserves for replacements.

Scot Hall, Wolf Realty, indicates that office buildings in this market segment would have expense ranging from \$3.00 to \$3.50 per square foot, excluding the cost of electricity and management. Sean Bishop, Middlefork Commercial, reported expenses of \$6.50 per square foot, including the cost of electricity and management.

On the following page is a summary of expenses from seven buildings in the Phoenix metropolitan area. Sizes range from a 10,065 square foot, Class B building in Scottsdale to a 122,884 square foot, Class A building in Scottsdale. Although larger than the subject, they help understand the costs of operating an office building on a full service basis. Actual data is from 2006 and 2007 with data from 2008 and 2008/2009 obtained from budget projections for those properties. Expense Comparable No. 6 had a vacancy of 57.13% which affected several categories of variable expenses.

Fixed Operating Expenses

<u>Building Insurance</u> - The expense data indicates an insurance expense ranging widely from \$0.13 to \$0.30 per square foot. Insurance rates are closely tied to type of construction and type of tenant. Larger buildings generally pay lower unit amounts for insurance than do smaller buildings. The presence or absence of fire sprinklers also affects insurance rates. The client provided a limited amount of operating expense history for the subject. For the period 2006-2008, the subject had an insurance expense of \$1,106 each year. Based on this information, I have estimated a stabilized insurance expense of \$1,200 per year or \$0.13 per square foot.

			03	MPAR	COMPARABLE OFFICE EXPENSE DATA	FFICE	EXPEN	SE DAT	A					
Expense Comparable No.	One	0	Two	٥	Three	ee.	Four	ın	Five	re	Six	×	Seven	en
Property City	Scottsdale	Jale	Scottsdale	dale	Phoenix	enix	Scottsdale	sdale	Chandle	dier	Phoeni	inix	Scottsdale	dale
Property Class	80		Ω		∢		∢	٠	⋖		83		∢	
Building Size	10,065	35	13,779	62	75,5	395	122,884	884	30,7	780	16,490	90	34,2	09.
Number of Stories	₹		_		m		ιζ		61		2		2	
Building Age	1998		1986	ďΩ	2002	32	1987	37	2000	8	200	33	2003	33
Confidential I&E Record	9 <u>2</u>		Š	_	S.		8 8		ž	0	₽		Ž	
Statement Type	Budget	iet	Budget	jet	Budget	get	Actual	naj	Actual	nai	Budget	get	Budget	get
Year of Record	2009	. o	2009	6	2008	08	2006	J6	2007	27.	2008/2009	5003	2008	&
Effective Gross Income	\$236,327	327	\$349,318	318	\$1,556,378	6,378	\$2,650,608	0,608	\$534,956	926'	\$153,781	781	\$698,904	,904
	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI
EFFECTIVE GROSS INCOME	\$23.48	100.00%	\$25.35	100.00%	\$20.48	100.00%	\$21.57	100.00%	\$17.38	100.00%	\$9.33	100.00%	\$20.40	100.00%
OPERATING EXPENSES											(Vac. of 8	57.13%)		
Real Estate Taxes	\$3.87	16.48%	\$2.39	9.43%	\$2.90	14.16%	\$2.58	11.96%	\$3.24	18.64%	\$2.46	26.37%	\$3.24	15.88%
Property Insurance	\$0.20	0.85%	\$0.13	0.51%	\$0.19	0.93%	\$0.16	0.74%	\$0.24	1.38%	\$0.26	2.79%	\$0.30	1.47%
Management Fees	\$1.01	4.30%	\$0.83	3.27%	\$0.83	4.05%	\$0.66	3.06%	\$0.60	3.45%	\$0.50	5.36%	\$0.51	2.50%
Administrative Fees	\$0.41	1.75%	\$0.05	0.20%	\$0.68	3.32%	\$0.80	3.71%	\$0.24	1.38%	\$0.00	0.00%	\$0.24	1.18%
Total Utilities	\$0.40	1.70%	\$2.07	8.17%	\$2.05	10.01%	\$2.38	11.03%	\$1.24	7.13%	\$1.35	14.47%	\$2.48	12.16%
Repairs & Maintenance	\$1.72	7.33%	\$0.23	0.91%	\$0.70	3.42%	\$2.20	10.20%	\$1.45	8.34%	\$0.88	9.43%	\$1.60	7.84%
Cleaning & Janitorial	Tenant	%00.0	\$0.73	2.88%	\$1.46	7.13%	\$0.87	4.03%	\$1.53	8.80%	\$0.35	3.75%	\$0.88	4.31%
Landscaping & Security	\$0.04	0.17%	\$0.00	%00.0	\$0.67	3.27%	\$0.32	1.48%	\$0.39	2.24%	\$0.02	0.21%	\$0.30	1.47%
Other Operating Expenses	\$0.00	%00.0	\$2.31	9.11%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.21	2.25%	\$0.25	1.23%
TOTAL OPERATING EXPENSES	\$3.78	16.10%	\$6.35	25.05%	\$6.58	32.13%	\$7.39	34.26%	\$5.69	32.74%	\$3.57	38.26%	\$6.56	32.16%

Real Estate Taxes – The subject is tax exempt, thus, it does not offer a indication of tax liability. Comparable No. 6 in the Sales Comparison Approach and the Rent Comparables provided a range of tax liability from a low of \$1.66 to \$2.21 per square foot. For inclusion in the stabilized expense projection, I have estimated a stabilized tax liability of \$16,746 or \$1.85 per square foot.

Variable Operating Expenses

Management - Management fees are typically based on a percentage of effective gross or collected income. Based on conversations with several professional leasing and management agents, 3 to 5 percent of the effective gross income was typically reported in multi-tenanted buildings. One leasing and management agent I spoke with indicated that he collected 4% of *gross* income to insure a reasonable fee when rents are depressed and vacancy high. The expense data indicated a range from 2.5% to 5.36%. An easy-to-manage single-tenanted building like the subject, was estimated to be near the lower end of the range. Therefore, management expense is estimated as **3 percent** of effective gross income or **\$2,553** per year (\$85,089 x .03).

Administrative - Administrative fees include accounting, licenses and fees, tax appeal, advertising, and general office and administrative expenses. Typically administrative fees do not include payroll or management expenses and range from 1 to 2 percent of effective gross income in multi-tenanted buildings. The expense data indicated a range from 0.2%% to 3.71% which is equal to \$0.05 per square foot to \$0.80 per square foot. One of the expense comparables, No. 7 did not include any administrative expenses. I have estimated administrative expenses to be \$1,000. This amount equates to \$0.11 per square foot.

Repairs and Maintenance - Repairs and maintenance expense typically includes maintenance service, HVAC service, electrical repair, structural roof, plumbing, fire and life safety, etc. Buildings like the subject in the Phoenix metropolitan area typically have an expense from \$0.50 to \$2.00 per square foot, depending upon location, age, layout, building finish and occupancy. The expense data exhibits a range from \$0.23 to \$2.20 per square foot. As a percentage of effective gross income, the data ranges from 0.91% to 10.2%. As the subject is a modest and simple 1-story building, I have estimated this stabilized expense to be \$0.80 per square foot or \$7,242 per year.

<u>Cleaning/Janitorial</u> – This cost is the responsibility of the tenant on a modified gross allocation of expenses. Although, the landlord will experience some cost in this category during infrequent periods of vacancy, the cost is negligible.

<u>Utilities</u> – This cost is the responsibility of the tenant on a modified gross allocation of expenses. Although, the landlord will experience some cost in this category during infrequent periods of vacancy, the cost is low, say **\$200** per year.

<u>Landscaping & Security</u> — This cost is the responsibility of the tenant on a modified gross allocation of expenses. Because the landlord will experience some cost in this category during infrequent periods of vacancy, a cost of **\$400** or **\$0.04** per square foot was estimated is negligible especially considering the subject's very modest grounds.

Other – Other expenses include items that do not fit precisely into the previous categories or that are unique to a specific property. In the format presented, with reliance on the market expense data, no "Other" expenses were applicable.

Expense Ratio

The expense ratio is influenced by the type of leases in place, the property's occupancy and the rental rates obtained. The expense data indicated expense ratios ranging from 32.58% to 64.63% with total expenses per square foot ranging from \$6.03 per square foot to \$9.97 per square foot. But the expense data was from the operation of office buildings on a full service basis which includes electricity, gas, janitorial, landscaping and often, other services. My survey indicated a range of stabilized operating expenses in the range from \$3.00 to \$4.50 per square foot.

The total expenses projected for the subject on a stabilized basis are equal to \$29,341 or \$3.24 per square foot and 34.48% of Effective Gross Income, an amount and a ratio that are supported by the ranges indicated from the comparable data.

Net Operating Income

The following stabilized forecast operating statement summarizes the estimation of net operating income for the subject:

STABILIZED FORECAST OPERATING STATEMENT

otential Gross Rental Income				
	9,052 s.f.	×	\$10.00 pers.f.	90,520
Other Income				\$0
Potential Gross Income Less Vacancy & Collection Loss	6%			\$90,520 (\$5,431
•	Ų 76			
Effective Gross Income				\$85,089
ess Operating Expenses				
		Projected	Expense	
	_	Expense	Per S.F.	
Fixed Expenses				
Taxes		\$16,746	\$1.85	
Insurance		\$1,200	\$0.13	
Variable Expenses				
Management	3%	\$2,553	\$0.28	
Administrative		\$1,000	\$0.11	
Maintenance		\$7,242	\$0.80	
Cleaning/Janitorial		\$0	\$0.00	
Utilities		\$200	\$0.02	
Landscaping & Security		\$400	\$0.04	
Total Operating Expenses	34.48%	\$29,341	\$3.24	(\$29,341

Direct Capitalization

An appropriate overall capitalization rate applied to the estimated net operating income results in a value indication for the subject by direct capitalization. Generally, rates extracted from the sales in the Sales Comparison Approach provide useful indications of overall capitalization rates applicable to the net income for the subject property.

Overall rate indications were obtained from numerous office sales in the metropolitan Phoenix market area. The Sales Comparison Approach produced only one OAR indication—0.6620.

lumber	Property	Class	Yr. Blt.	Rentable	Sale Price	Recording Date	OAR
1	337 E. Coronado Rd., Phoenix Southwest Kidney Institute	B Medical	2006	17,979	\$6,058,000	12/31/2008	7.50%
2	20325 N. 51st Ave., Glendale Southwest Kidney Institute, Bldg. 11	B Medical	2006	12,148	\$4,150,000	12/30/2008	7.50%
3	100 W. Camelback Rd., Phoenix RNL Designs	B General	2007R	7,848	\$1,837,500	8/6/2008	7.65%
4	8825 N. 23rd Ave., Phoenix General Office Building	B General	1985	14,656	\$1,890,000	8/11/2008	7.40%
5	6328 E. Brown Rd., Mesa El Dorado Commerce Center	B Medical	1988	8,429	\$1,420,000	8/6/2008	7.80%
6	1717 E. Morten Ave., Phoenix Arroyo Square	B General	1980	12,001	\$1,850,000	5/2/2008	6.62%
7	1100 E. Washington St., Phoenix Washington Square	B General	1980	9,710	\$1,036,100	3/7/2008	7.00%
8	8648 N. 35th Ave., Phoenix Royal Palm Professional Plaza	C Medical	1986	10,378	\$1,328,000	1/18/2008	7.89%

Given the deteriorating economy, recession and weak investor confidence, overall capitalization rates are rising. My discussions with active brokers and agents support this opinion.

Another source of overall capitalization rates is provided by <u>Korpacz Real Estate Investor Survey</u>, published by PriceWaterhouseCoopers. In their 2nd Quarter 2009 issue, they report their findings regarding overall rates in the office market segment. They report an average rate of 8.4 percent which was up 102 basis points from the quarter before. This compares to the national suburban office market which had an average overall rate of 8.24%, up 7 basis points from the prior quarter.

Recognizing the subject's 41-year age and average-fair quality, Class C improvements, but also giving weight to its appealing location in the governmental mall, a range of overall capitalization rates from 7.75% to 8.5% were applicable for this analysis.

Applying this range to the subject's estimated stabilized net operating income offers a range of market value for the subject property from application of the Income Approach:

Net Income of \$55,748 divided by OAR 0.0850 = \$655,859

- to --

Net Income of \$55,748 divided by OAR 0.0775 = \$719,329

Opinion of Market Value by the Income Approach

Considering all the factors affecting the marketability of the subject, my preliminary opinion of market value of the unencumbered fee simple interest in the subject property, after office conversion, assuming market rents and occupancy, as of August 25, 2009, by

direct capitalization within the Income Approach, was \$700,000. As discussed in Highest and Best Use Analysis and under "Appeal" in this section of the report, I have deducted an estimated cost of \$65,000 from my preliminary opinion of value. Thus, from the application of the Sales Comparison Approach, as of the effective date of the appraisal August 25, 2009, was \$635,000, which indicates a package price of \$70.15 per square foot of gross building area ($$635,000 \div 9,052$ square feet). My opinion of market value was subject to a special limiting condition stated on page 12.

RECONCILIATION AND OPINION OF MARKET VALUE

As indicated, there are three approaches of estimating the value of real property: the Cost Approach, the Sales Comparison Approach and the Income Approach. Because of the age and design of the improvements the Cost Approach was not applicable. The Sales Comparison Approach and the Income Approach were considered applicable. These analyses provided the following indications of market value, "as is", *before* office conversion:

Sales Comparison Approach:

\$735,000

Income Approach:

\$635,000

Sales Comparison Approach

The Sales Comparison Approach is used by buyers and sellers to form an important indication of value. Similar properties that have recently sold are used to develop a useful unit of comparison--price per square foot of gross building area. Sales data for comparable improved properties in the subject's market segment were plentiful, current and comparable to the subject. Overall, the data was reliable as it set well-defined boundaries for the subject's market value.

Owner-users dominate this market segment and find this approach to be very reliable when they estimate value and pay the prices they do. Given the reliance that the typical buyer places on this Sales Comparison Approach, it provided a strong indication of market value for the subject property as improved.

Income Approach

The Income Approach is considered an important indicator for income producing properties because prudent investors often buy real estate based on the capitalization and strength of its net income flow, especially when cash flow is more important than the weak tax advantage real estate provides.

The typical investor finds the direct capitalization method utilized in the Income Approach reliable and bases his or her purchase decision on the results of such analysis. This approach provided an accurate and meaningful result given the good comparability of the data, reliable indications of market rent, vacancy, credit loss and expenses. When available, strong, applicable overall rate indications from the data effectively provide good evidence of a rate applicable to the subject. However, as financing has become less available for investment properties, and market conditions have made such investments less appealing, the Income Approach has been given less weight by market

participants. As a result, while the Income Approach is considered to provide a reliable estimate of the value of an income producing investment property, it is less reliable when the primary market participants are made up of owner-users.

Opinion of Market Value

The application of the Sales Comparison Approach and Income Approach both considered the undivided fee simple estate of the subject as if owner-occupied or rented at the market rate to the prevailing market rate of occupancy. In reconciling the indications from the Sales Comparison Approach and the Income Approach, exclusive weight was given to the Sales Comparison Approach. The six comparable sales were extensively investigated and analyzed and bore good comparability to the subject. This data provides a strong and credible basis upon which to estimate the market value of the fee interest in the subject real estate.

The Income Approach was based upon current and relevant rental, vacancy and expense data, and a capitalization rate with market support. However, as investors made up a very small portion of the small office building market as of the effective date of the appraisal, this approach did not reflect the particular motivations of the typical buyer as well as the Sales Comparison Approach.

Therefore, from my investigation and analysis of the subject and relevant market data, my opinion of the market value of the undivided fee simple interest in the subject property, "as is" and before office conversion, as of the effective date of the appraisal (date of valuation), August 25, 2009 was:

SEVEN HUNDRED THIRTY-FIVE THOUSAND DOLLARS

(\$735,000 or \$81.20/s.f. of Gross Building Area)

My opinion of market value was subject to a special limiting condition stated on page 12.

CERTIFICATION

The undersigned does hereby certify that, except as otherwise noted in this appraisal report:

- 1. The statements of fact contained in this report are true and correct.
- 2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- 3. I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- 8. I have made a personal inspection of the property that is the subject of this report.
- 9. No one provided significant professional assistance to the person signing this report with inspection, data gathering, description, analysis, and report preparation.
- 10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 11. As of the date of this report, I, Dennis L. Lopez, MAI, SRA, have completed the continuing education program of the Appraisal Institute.

My opinion of the market value of the undivided fee simple interest in the subject property, "as is" and before office conversion, as of the effective date of the appraisal, August 25, 2009, was \$735,000 or \$81.20 per square foot of gross building area. My opinion of market value was subject to a special limiting condition stated on page 11.

Dennis/L. Lopez, MAI, SRA

Certified General Real Estate Appraiser - State of Arizona Certificate No. 30189

APPENDIX

Qualifications of the Appraiser

QUALIFICATIONS OF DENNIS L. LOPEZ, MAI, SRA

Education

Bachelor of Science Degree, Business Administration, Arizona State University, Magna Cum Laude, December, 1978

Real Estate Principles, Arizona State University, 1977

Real Estate Law, Arizona State University, 1977

Real Estate Management, Arizona State University, 1978

SREA 101 (Real Estate Appraisal), Arizona State University, 1978

SREA 201 (Real Estate Appraisal), Arizona State University, 1978

Real Estate Land Development, Arizona State University, 1978

Real Estate Investments, Arizona State University, 1978

Urban Planning, Arizona State University, 1978

AIREA Course VIII, "Single Family Residential Appraising," Arizona State University, 1978

SREA "Marketability and Market Analysis," Phoenix, Arizona, 1979

SREA Seminar "Basic Money Market & Economic Analysis," Phoenix, Arizona, 1980

SREA "Market Abstractions Seminar," Phoenix, Arizona, 1981

AIREA "Standards of Professional Practice," Tempe, Arizona, 1981

AIREA "Condemnation & Litigation Valuation," San Diego, California, 1982

IRWA "Skills of Expert Testimony," Phoenix, Arizona, 1983

SREA FHLBB Reg. R41-(b) Seminar, Tempe, Arizona, 1985

AIREA "Valuation Analysis and Report Writing" (Exam 2-2), Tempe, Arizona, March, 1986

AIREA "Case Studies in Real Estate Valuation" (Exam 2-1), Tempe, Arizona, March, 1986

AIREA "Highest and Best Use Analysis" Tucson, Arizona, April, 1986

"Eminent Domain Valuation-Procedures and Case Studies," Robert Helmandollar, Deputy Chief

Right-of-way Agent, Arizona Department of Transportation, Tempe, Arizona, November, 1986 "Arizona Condemnation and Zoning", Professional Education Systems, Scottsdale, Arizona, June, 1988

SREA "Environmental Waste As It Applies To Real Estate", Phoenix, Arizona, December, 1988

SREA "Standards of Professional Practice and Conduct", Tempe, Arizona, December, 1988

AIREA "Rates, Ratios and Reasonableness", Tempe, Arizona, August, 1989

AIREA "Uniform Standards of Professional Practice," Tempe, Arizona, February, 1990

SREA "Income Property Valuation for the 1990's", Phoenix, Arizona, July, 1990

Al "Reviewing Appraisals", Tempe, Arizona, June, 1992

IRWA "Easement Valuation" (Course 403), Tempe, Arizona, March, 1993

ADOT "Impact of Highway Construction on Real Estate", April, 1993

Al "Uniform Standards of Professional Appraisal Practice, Part A & B" Tempe, Arizona, February, 1994

Al "Advanced Income Capitalization, Course II510, ASU, Tempe, Arizona, February, 1995

Al "Fair Lending", San Diego, California, October, 1995

Al "Subdivision Analysis", Phoenix, Arizona, March, 1996

Al "New Industrial Valuation", Phoenix, Arizona, May, 1998

Ted Whitmer, "Attacking & Defending an Appraisal in Litigation", Tempe, Arizona, January, 2000

AI, "710 Condemnation Appraising - Basic Principles and Applications", Tempe, Arizona, May, 2000

AI, "720 Condemnation Appraising - Advanced Topics and Applications", Tempe, Arizona, May, 2000

AI "Uniform Standards of Professional Appraisal Practice, Part C" Las Vegas, Nevada, October, 2000

Al "Litigation Appraisal: Specialized Topics and Applications, Course 705, Tempe, Arizona, March, 2002

IRWA "Reviewing Appraisals in Eminent Domain", Phoenix, Arizona, May, 2005

Al "Uniform Standards of Professional Appraisal Practice, 2006 Update" Flagstaff, Arizona, June, 2006

Al "Subdivision Analysis", Phoenix, Arizona, October, 2007

Al "Business Practices and Ethics", Chandler, Arizona, May, 2008

Al "2008-2009 USPAP Update", Chandler, Arizona, May, 2008

Professional Designations, Memberships, Licenses and Certifications

MAI - Member, Appraisal Institute, May, 1988, Certificate No. 7798
SRA - Senior Residential Appraiser, Appraisal Institute, August, 1980
Member, International Right of Way Association, Chapter 28, Phoenix, Arizona
Certified General Real Estate Appraiser, State of Arizona, Certificate No. 30189
Licensed Real Estate Salesperson-State of Arizona

Professional & Civic Activities

Appraisal Institute, Admissions Committee, Experience Review, 1989-1997

Appraisal Institute, Review and Counseling Committee, 1991-2005

Society of Real Estate Appraisers, Phoenix Chapter #68, Chairman, Professional Practice Committee, 1989-1990

Society of Real Estate Appraisers, Phoenix Chapter #68, Chapter President and Supervisory Officer of the Professional Practice Committee, 1987-88

College of Business Administration, Arizona State University, Guest Lecturer, Finance and Real Estate Departments, College of Business

Mesa Community College, Scottsdale Community College, Desert Vista High School, Guest Lecturer, Real Estate Appraisal

CLE International, Guest Lecturer, Eminent Domain Conference, April, 2005

Awards

Awarded the "Employer of the Year, 2004", by the Phoenix Chapter 28, International Right-of-way Association, September, 2004

Awarded the "Minority Consultant Firm of the Year", by the City of Phoenix Minority Business Enterprise Affirmative Action Program, October, 1989

Awarded the "Phoenix Board of Realtors Outstanding Real Estate Student of the Year," by the Phoenix Board of Realtors in conjunction with the College of Business Administration, Arizona State University, 1978

Experience

- Independent fee appraiser and consultant since June, 1978, with varied experience in appraising and analyzing single-family residences, vacant land, multi-family residential properties, commercial, retail, industrial and special use properties; specialization in eminent domain valuation and expert witness testimony
- Qualified as an expert witness in matters of real estate appraisal in Maricopa County, Pima County, Pinal County, Coconino County, Yavapai County, Yuma County, and Mohave County Superior Courts, and U.S. Bankruptcy Court
- Currently self-employed with *Dennis L. Lopez & Associates, LLC*, Real Estate Appraisers and Consultants, 8631 South Priest Drive, Suite 103, Tempe, Arizona 85284, 480-838-7332, FAX 480-838-8950, dennis@lopezappraisal.com, www.lopezappraisal.com
- Vice President, Commercial Team Leader and Residential Manager with Sell, Huish & Associates, Inc., Real Estate Appraisers and Consultants, Tempe, Arizona, from January, 1980 to June, 1988 Licensed Real Estate Salesperson-State of Arizona

Geographical Area

State of Arizona

State of Arizona BOARD OF APPRAISAL

BE IT KNOWN THAT

DENNIS L. LOPEZ

HAS MET ALL THE REQUIREMENTS AS A

Certified General Real Estate Appraiser

in accordance with Alizona Revised Statutes and on authority of the Board of Appraisal, State of Arizona.

This certificate shall remain evidence thereofunless or until the same is suspended, revoked or expires in accordance with the provisions of law.

CERTIFICATE NUMBER

AUGUST 31, 2010

In witness whereof the Arizona Board of Appraisal caused to be signed by the Chair of the Board and the Executive Director

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